

## BOARD OF MANAGEMENT ACTION TRACKER

**COMMITTEE:**      **Audit Committee 26.11.19**

*(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 second meeting of each session.	November 2019	M Breen	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	
17.09.19	13	Due date for the Business Continuity Plan (Action 5) be amended to November annually	March 2020	M Breen	Completed	

DATE RAISED	ACTION No	ACTION	DUE DATE	OWNER	STATUS*	COMMENTS
17.09.19	14	A Risk Workshop, to include a review of Risk Appetite, be incorporated into the internal Board Induction/Development Day in November 2019.	January 2020	M Breen/J Thomson	In Progress	Moved by agreement with the Committee Chair to the Board Development Day on 30.01.20
17.09.19	15	An annual update paper on the long-term strategy for the PFI at Kilwinning campus to be provided annually at the third quarterly meeting of each session beginning in March 2020.	March 2020	M Breen	Not Started	

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

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# **Board of Management Report and Financial Statements**

For the year ended  
31 July 2019

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## Professional Advisers

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## Ayrshire College Registered Address

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# PERFORMANCE REPORT

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## Principal's Statement on Ayrshire College's Performance 2018-19

The College plays a key role in economic development across Ayrshire and Scotland. Working with our employers, key stakeholders and third sector partners, we have successfully delivered on key government priorities in STEM, Health and Social Care and Early Years Education and exceeded targets set.

Over the last year, the collective talent and commitment of our students, staff and partners has enabled the College to continue to improve our performance and student outcomes. The College achieved the core credit target set by Scottish Funding Council (SFC) and demonstrated an improvement in performance across all of the SFC key priority groups KPI's. Over a four year period full time student success increased by 4.4%.

The College supported the implementation of Developing the Young Workforce and provided seamless support for students to enable them to achieve their full potential at all points of transition. Data published by SFC notes that 95.9% of Ayrshire College students move into a positive destination.

The range of prevention and intervention strategies adopted by the College in partnership with other key stakeholders has continued to support the health and well-being of students. These early interventions have improved the retention and attainment of full-time students from areas of multiple deprivation. The number of care experienced students has grown significantly and the attainment rates for this cohort of students continues to improve.

Our focus on access, inclusion and diversity has created a strong ethos amongst staff and students and this has been a critical success factor in increasing student outcomes.

Development of new and innovative learning spaces and digital resources continued to improve the student experience in 2018-19. Continued investment in our infrastructure supported innovative practice across all curriculum and service teams.

The College positively engaged with individuals, communities and employers across Ayrshire in 2018-19 and we are proud of the impact we make on people's lives every day.

### Overview of Performance Report

The Board of Management of Ayrshire College presents its Performance Report together with the Audited Financial Statements for the year ended 31 July 2019.

This Performance Report provides a detailed summary of the performance of the College during 2018-19 and how it measures and monitors its performance. The Report also includes the strategic issues and risks facing the College.

### Legal Status

The Board of Management was established under the Further and Higher Education (Scotland) Act 1992 to manage and conduct Ayrshire College. It was designated a regional college on 3 March 2014 under the Further and Higher Education (Scotland) Act 2005.

The College is a registered Charity (Scottish Charity Number SC021177) for the purposes of the Law Reform (Miscellaneous Provision) (Scotland) Act 2005.

### Strategic Plan 2017-20

The Board of Management published the College's Strategic Plan 2017-2020. The Plan sets out the next stage in the development of Ayrshire College. It presents the basis of the College's future ambitions as it continues to drive forward, pushing boundaries and embracing opportunities.

The Strategic Plan demonstrates how the College's values, visions and strategic goals are all centred round its core mission. The College's core mission is to:

***“Provide excellent learning opportunities which enable students of all ages and backgrounds to fulfil their potential.”***

The College's vision is to ***“raise aspirations, inspire achievement and increase opportunities”***.

The Strategic Plan 2017-2020 sets out the College's strategic goals for this period. These are as follows:

- To be an ambitious, innovative and inclusive learning and skills organisation in which students and staff thrive
- To develop people and communities, and support inclusive growth, through high quality learning and skills
- To be a high-performing, sustainable college recognised for excellence and integrity.

The Strategic Plan provides the context for ambitions set out in other College strategies such as learning and teaching. The Plan also provides the overarching framework for the College's Outcome Agreement for 2017-20 agreed with the Scottish Funding Council (SFC).

### **SFC Outcome Agreement**

In 2017-18, the College agreed an Outcome Agreement with the Scottish Funding Council for the period 2017-20. This Outcome Agreement focuses on the following four outcomes:

- Learning is accessible and diverse, attracting and providing more equal opportunities for people of all ages, and from all communities and backgrounds
- An outstanding system of learning, where all students are progressing successfully and benefiting from a world-class learning experience, in the hands of expert lecturers delivered in modern facilities
- Well prepared and skilled students progressing into jobs with the ability, ideas, and ambition to make a difference to the economy
- High-performing, sustainable institutions with modern, transparent and accountable governance arrangements

The College produces a separate report on performance against the Outcome Agreement, this is in addition to the performance data collated within this performance report. The performance reported in the separate outcome agreement report includes KPI's in relation to student statistics such as numbers, retention and achievement.

### **Performance of Ayrshire College in 2018-19**

The College reviews its portfolio of courses on an annual basis. Courses no longer in demand, not achieving success or not related to skills are removed from the Curriculum Delivery Plan (CDP) for the following academic year. This annual College process ensures that its portfolio of courses is aligned to national, regional and local policy objectives.

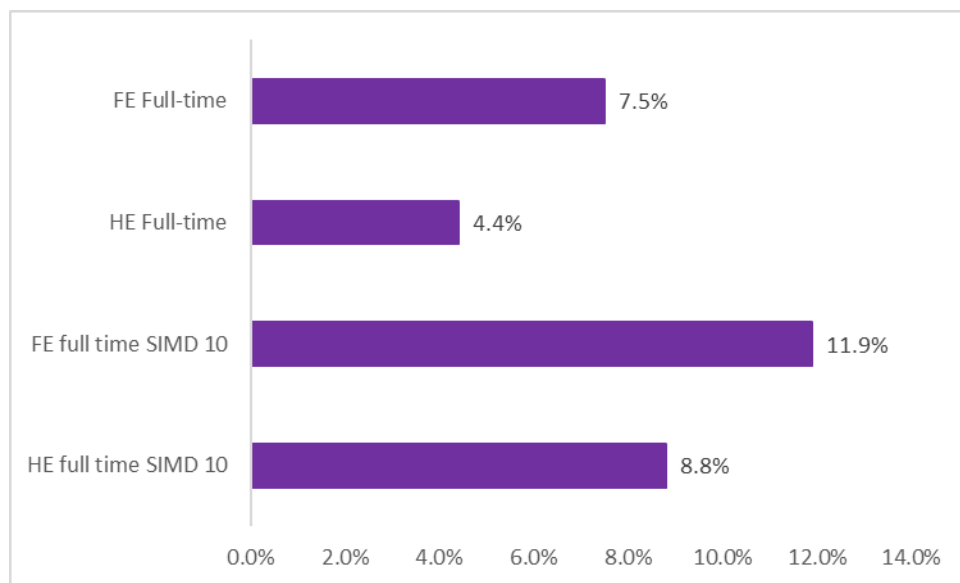
The College continues to make good progress on SFC priorities for improving outcomes for students. The College's continued strategic focus on reducing withdrawals and increasing success during 2018-19 has maintained the College's progress towards achieving the national ambitions for success, which are to be delivered by 2021.

In 2018-19, the College exceeded the core activity target set by the SFC and delivered 125,961 credits (target 124,958 credits). This is the fourth year in a row that the College has exceeded the SFC core activity target.

The College is recognised locally, regionally and nationally as an organisation which makes a positive difference to the lives of its students, to our communities, to Ayrshire’s economy and to Scotland. In 2018-19, 66.2% of FE full-time and 66.8% of HE full-time students completed their courses with a successful outcome.

Student attainment levels in 2018-19 for FE full-time students were 7.5% higher than the College achieved in 2014-15 and attainments levels for HE full-time students were 4.4% higher. Attainment levels for full-time students from areas of multiple deprivation have also risen significantly, with an 11.9% increase for relevant FE students and 8.8% for relevant HE students (Figure 1).

**Figure 1: Student Attainment Increases from 2014-15 to 2018-19**



Parts of Ayrshire have levels of children living in combined low income and material deprivation higher than Scotland’s national average of 20%. Ayrshire also has amongst the highest youth unemployment rates in Scotland a higher proportion of people of working age with low or no qualifications than the rest of the country.

East and North Ayrshire local authorities are amongst the top six councils with the highest local share of Scottish Index of Multiple Deprivation (SIMD) 20 per cent most deprived data zones (SIMD20) in Scotland. Ayrshire has circa 26 areas which are among the most deprived 5% in Scotland.

To support the national aspirations for widening access the SFC has set targets for all colleges. SFC has been set the target that 19.5% of its activity should be delivered to students from a SIMD10 postcode area by 2019-20 and 20% by 2020-21. Ayrshire College is committed to targeting students from SIMD10 recognising that education provides students from these areas with significantly improved opportunities for enhanced personal wellbeing and a sustainable future. The College remains on track to meet the national targets set for 2019-20 and 2020-21. The volume of students from SIMD10 increased slightly to 19.3% in 2018-19 from 19.2% the previous year. This however means that the College is only 0.2% off the 2019-20 target one year ahead of the national schedule.

Ayrshire College is recognised as an inclusive college. Consistent and proactive focus on access, inclusion and diversity have created a strong ethos amongst staff and students. This has been a critical success factor in increasing student outcomes year on year and it will continue to be a driver for improvement in student outcomes over the next three years.

The most recent SFC College Leaver Destination Survey reported that 95.9% of Ayrshire College’s students achieved a positive destination six months after completing their course of study. This is an increase of 1.1% from the previous year.

SFC has set ambitious and stretching targets for all of Scotland's colleges to deliver successful outcomes for care experienced students, aiming for parity with their peers by 2021. In 2018-19 Ayrshire College had 513 care experienced students, with 60.4% achieving a successful course outcome.

A key priority area of focus is to improve outcomes for students with a declared disability. Over the four years from 2015-16 to 2018-19 there has been a 37% increase in the number of students declaring a disability. More importantly, over the same period there has been a 5.2% increase in the proportion of these students with a declared disability achieving a successful outcome. In 2018-19 66.2% of Ayrshire College students with a declared disability achieved a successful outcome.

A culture of partnership working is embedded across the College. Throughout 2018-19 the College invested significant time in enhancing existing private, public and third sector partnerships, as well as developing new ones. Our partnership approach with universities also allows our students to gain access to degree programmes with advanced standing.

The College is a strategic business partner of the Ayrshire Chamber of Commerce and a member of the Developing the Young Workforce Ayrshire Steering Group. Significant economic sectors in the region are aerospace, engineering, health and social care, early education, and hospitality and tourism. The College collaborates with employers and industry bodies to plan the provision of courses to address growth in these and other economic sectors. With approximately 900 apprentices in training at any given time, the College is the main provider of STEM apprenticeships in Scotland.

Ayrshire College has put sustainability towards the forefront including reducing waste within the College. The College's successful drive towards sustainability has been recognised at a national level, with the College being short-listed for the 2019 College Development Network sustainability award.

The College has published a Sustainability Action Plan and its ambition is to be carbon neutral by 2050, in line with government targets. An annual climate report submitted to the Scottish Government every November by Ayrshire College shows that Ayrshire College's carbon footprint is reducing year on year. The College complied with the Scottish Government sustainability reporting in line with the requirements of the Climate Change (Scotland) Act 2009.

The College continues to invest in its campuses and during 2018-19 major improvement works have been completed to improve the student experience. The improvement works were facilitated by substantial funding support from the Ayrshire College Foundation (ACF) as well as utilising SFC capital grant funding.

The College continues on its journey of improvement in 2018-19 and remains focused on increasing student attainment and achievement. In particular, the College will focus efforts on continuing to improve full-time HE success, which is currently below sector average.

## **Financial Objectives**

The College's financial objectives are to be financially sustainable while continuing to invest in the development of student centred services, infrastructure and resources. The financial context and funding settlements over recent years continue to present challenges to these financial objectives.

The College continues to develop its financial planning structures, budgeting, monitoring and financial reporting systems to support a complex organisation of the scale of Ayrshire College. Robust financial planning remains a key priority going forward given the challenges for the college sector around the levels of funding made available while continuing to demonstrate financial sustainability.

The Executive Leadership Team (ELT) continues to work with the Board of Management and its committees to review financial information requirements and key performance data to ensure good Governance in relation to challenge and scrutiny.

## **Financial Review**

College staff continually review and refine operations during the year. Robust financial management systems, innovative delivery models and prioritisation of expenditure commitments are in place to ensure that the College continues to operate efficiently and effectively within a time of significant financial challenge.

The College generated a deficit in the year of (£1,717,000) before non-recurring items. The deficit represents an adverse figure of (3%) of overall trading income. This compares to a deficit before non-recurring items in 2017-18 of (£1,068,000). After recording net non-recurring costs amounting to £365,000, the final deficit was (£1,352,000) for 2018-19. This is compared to a 2017-18 deficit of (£2,318,000).

The College, at July 2019, has £46,813,000 of net assets (excluding a pension liability of £12,613,000). At July 2018 the College had £45,347,000 of net assets (excluding a pension liability of £4,395,000). The pension liability is excluded as this is outwith the College's control.

The College has significant reliance on SFC for its funding which is largely from recurrent grants. In 2018-19, SFC provided 85.0% of the College's total operational revenue income (2017-18, 83.0%).

The cash balance of £2,705,000 shown in the Balance Sheet includes £1,202,000 made up of SFC monies held by the College for capital (in advance) and student funding (to be repaid), as well as the College's own restricted cash balances. Therefore, the College's trading cash balance as at 31 July 2019 was £1,503,000.

### **Statement of Comprehensive Income**

The statement of comprehensive income shows a total deficit for the year to 31 July 2019 of £(1,352,000). This is compared to a deficit in 2017-18 of £(2,318,000).

There were three areas of non-recurring expenditure which impacted the deficit in 2018-19. These were exceptional restructuring costs, release of provision regarding the former campus at Townholm in Kilmarnock and exceptional costs relating to the NPD contract. The presentation of the Statement of Comprehensive Income in these financial statements therefore analyses trading in the period between recurring items £(1,717,000) and non-recurring items £365,000.

#### ○ Recurring Items

The College recorded a deficit of £(1,352,000) which represents an adverse figure of approximately (3%) of overall trading income.

The recorded deficit of £(1,717,000) in 2018-19 comprises of the following elements:

• Operating position- surplus	£1,661,000
• FRS102- NPD/ PFI Capital income	£1,845,000
• Net Depreciation charge	£(2,713,000)
• FRS 102- Pension	£(2,510,000)

#### ○ Non-recurring Items

Non-recurring items are one off events that occur over and above the core business of the College. The non-recurring items amounting to a surplus of £365,000 in 2018-19 comprised the following elements:

• Provision released re: Townholm campus	£332,000
• Exceptional Income re NPD Contract	£1,809,000
• Exceptional Costs re NPD Contract	£(1,809,000)
• SFC Income re VS Costs for restructuring	£1,015,000
• Exceptional restructuring costs	£(982,000)

To aid the reader of these accounts, the College has provided a reconciliation to the figures reported above for recurring and non-recurring items as noted within the statement of comprehensive income (Table 1).

**Table 1 – Underlying operating position 2017-18 and 2018-19 – Detailing Recurring and Non-recurring Items**

	<b>Recurring £000</b>	<b>Non- recurring £000</b>	<b>2018-19 £000</b>	<b>2017-18 £000</b>
Surplus /(deficit) after other gains and losses	(1,717)	365	(1,352)	(2,318)
(Loss) / gain on sale	-	-	-	235
<b>Surplus / (deficit) before other gains and losses</b>	<b>(1,717)</b>	<b>365</b>	<b>(1,352)</b>	<b>(2,553)</b>
<b>Add back:</b>				
Provision released		(332)	(332)	-
Depreciation (net of deferred capital grant release)	2,713	-	2,713	2,256
Exceptional non-restructuring costs (e.g. impairment)		-	-	1,250
Non-cash pension adjustments	2,510	-	2,510	2,090
Donation to Arms-length Foundation				
Provision per 1 April 2014				
<b>Deduct:</b>				
Non-Government capital grants (e.g. ALF capital grant)	(618)	-	(618)	(1,881)
Exceptional income	-	-	-	-
Revenue funding allocated to loan repayments (NPD)	(1,227)	-	(1,227)	(1,176)
<b>Sub-Total Revenue</b>	<b>1,661</b>	<b>33</b>	<b>1,694</b>	<b>(14)</b>
Retention of sale proceeds to fund PFI Capital and Interest payments		1,050	1,050	-
Revenue funding allocated to PFI loan repayments		-	(950)	(899)
Early retirees	-	-	(91)	(95)
<b>Underlying operating surplus / (deficit)</b>			<b>1,703</b>	<b>(1,008)</b>

**Underlying operating position 2017-18 and 2018-19**

SFC as part of its accounts direction instructed Colleges to provide a statement in relation to the underlying operating position using a standard table (Table 2). The SFC table (Table 2) includes both revenue and capital items.

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**Table 2 – Underlying operating position 2017-18 and 2018-19**

	<b>2018-19 £000</b>	<b>2017-18 £000</b>
<b>Surplus (deficit) before other gains and losses</b>	(1,352)	(2,553)
<b>Add back:</b>		
Depreciation (net of deferred capital grant release)	2,713	2,256
Exceptional non-restructuring costs (e.g. impairment)	-	1,250
Non-cash pension adjustments	2,510	2,090
Retention of sale proceeds to fund PFI capital and interest payments	1,050	-
Provision released	(332)	-
<b>Deduct:</b>		
Non-Government capital grants (e.g. ALF capital grant)	(618)	(1,881)
Revenue funding allocated to loan repayments and other capital items	(2,268)	(2,170)
<b>Underlying operating surplus / (deficit)</b>	<b>1,703</b>	<b>(1,008)</b>

**Cash budgets for priorities**

Whilst colleges prepare accounts under the FE/HE Statement of Recommended Practice they are also required to comply with Central Government budgeting rules. This affects, amongst other things, the way in which non-cash depreciation charges are treated for budgeting purposes and how colleges allocate the cash funds (cash budget for priorities) (CBP) which were previously earmarked for depreciation.

Table 3 below details the allocation of the CBP and the impact on the operating position. The College has been instructed by SFC on the format of this table and also on the priorities to be allocated against. This instruction (received by the College in November 2018) requires the College to base the allocations on the requirements set out in 2015-16 rather than the underlying position in the year.

**Table 3 – Cash budget for priorities spend 2017-18 and 2018-19**

	<b>2018-19 £000</b>	<b>2017-18 £000</b>
<b>Revenue</b>		
Student support	-	-
2015-16 pay award	370	370
Other (give detail)	-	-
<b>Total impact on operating position</b>	<b>370</b>	<b>370</b>
<b>Capital</b>		
Loan repayments (PFI capital payment)	863	859
Early Retirees	91	95
<b>Total Capital</b>	<b>954</b>	<b>954</b>
<b>Total cash budget for priorities spend</b>	<b>1,324</b>	<b>1,324</b>

**Reserves**

The deficit brought forward on the income and expenditure reserve at 1 August 2016 was £4,533,000. After the deficit for the year before non-recurring items of (£1,717,000), the non-recurring items noted above of £365,000, the transfers in respect of the pension reserve, and the transfers from the revaluation reserve are taken into account, the deficit on the College's income and expenditure reserve at 31 July 2019 is £(197,000).

## Capital Additions

Tangible Fixed Asset additions in 2018-19 amounted to £1,753,000. This expenditure on the buildings of £1,378,000 relates mainly to re-roofing, windows replacement and the care suite at the Ayr campus and expenditure on the Kilwinning PFI campus of £17,000. In addition, there was expenditure of £375,000 on IT and curriculum equipment.

## Core Performance Indicators

The SFC has developed a series of core performance indicators which are designed to provide an overall summary view of an institution's performance (Table 4). The table below notes the College's performance against these indicators which should be considered in conjunction with the narrative provided in the Performance Report.

**Table 4 – Ayrshire College Performance against SFC Core Performance Indicators**

No	Performance Indicator	2018-19	2017-18
1	Recurring (Deficit)/Surplus as % of total trading income	(3.3%)	(2.2%)
2	Non SFC Income as % of Total Income	15%	16.9%
3	Credit activity target set by SFC for year to July 2019	124,958	125,370
4	Credit activity achieved in year to July 2019	125,961	126,326
5	Activity achieved against target	100.8%	100.8%
6	Current Assets: Current Liabilities	0.6:1	0.4:1
7	Gearing/debt	Nil	Nil
8	Days of recurring expenditure represented by period end cash	15	8

## Treasury Management Policies and Objectives

Treasury Management is the management of the College's cash flows, its banking, money market and capital transactions; the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The College has a policy of placing any surplus funds with the College's retail banker with a view to maintaining security of capital; maximising the yield from any short term deposits made whilst maintaining accessibility to funds.

## Cash Flows

The College had a net increase in cash in 2018-19 of £982,000. This is detailed in the Cash Flow Statement.

## Liquidity

The College continues to have sufficient liquidity in terms of cash resources.

## Payment Performance

The College has a policy of paying its suppliers within agreed terms unless an invoice is disputed. All disputes are dealt with as quickly as possible and we are not aware of any payments being made out with



the College's approved payment policy. No interest was paid by the College under the Late Payment of Commercial Debts (Interest) Act 1998.

## **Resources**

The College has various resources that it can deploy in pursuit of its strategic objectives.

### Property

Tangible resources include the three main campuses of Ayrshire College together with smaller satellite campuses. Ayrshire College has prominent main campuses in all three local authority areas. Our main campuses are located in Ayr, Kilwinning and Kilmarnock. Other campuses are used to support specialist curriculum provision, such as our Nethermains Campus in Kilwinning which focuses on our STEM curriculum.

### Estates Development

Estates developments are evidence based and allow the College to align its estate to the emerging needs of students and curriculum delivery requirements.

### Staff Report

In the 2018-19 staffing return to the SFC, it was reported that the College employed 732 full-time equivalent employees of whom 352 were curriculum staff and 380 were service staff. This equates to a headcount of 906, comprising 591 female and 315 male members of staff.

Full disclosure on staff costs is given in note 7 of the accounts.

### National Bargaining

The College is a signatory to the National Recognition and Procedures Agreement (NRPA) and a member of the Employers Association. A number of National Bargaining agreements have been reached during 2018-19 for both curriculum and service staff.

Local Joint Negotiation Committees (LJNC) continued to be held during 2018-19 with both EIS-FELA and Unison.

## **Principal Risks and Uncertainties**

The College's Board of Management is ultimately responsible for the College's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Executive Leadership Team (ELT) monitors key performance and risk indicators and considers possible control issues brought to its attention through operational planning and monitoring. The ELT and the Audit Committee also receive regular reports from Internal Audit which include recommendations for improvement.

The College Risk Register at the end of 2018-19 identified 17 strategic risks. These were as follows:

- No risks were assessed as High
- Two risk was assessed as Medium
- Eight risks were assessed as Moderate
- Six risks were assessed as Low
- One risk was assessed as Very Low.

## Stakeholder Relationships

Ayrshire College has many stakeholders. These include:

- Students
- Student Association
- Staff
- Scottish Funding Council
- Education Scotland
- Scottish Government
- Local employers / businesses
- Community planning partnerships
- Local authorities
- Colleges Scotland
- Skills Development Scotland
- Trade unions
- Universities
- The voluntary sector
- Scottish Futures Trust
- The National Union of Students

The College recognises the importance of these key relationships and engages in regular communication with our stakeholders through a variety of routes.

## Staff Involvement and Participation

All staff are fully informed of College developments through a range of communication and consultation frameworks. In addition, there are also two elected staff members on the Board of Management.

## Staff Development

The College has continued to invest in the development of all staff during 2018-19 and a broad range of staff learning and development activities took place during the year.

## Equality and Diversity

The College is committed to ensuring that it is an inclusive regional college, accessible by all sections of the communities we serve. The College's Strategic Plan 2017-20 sets out a cross-cutting theme of **"advancing equality of opportunity and promoting diversity"**. The ELT and Board of Management lead the College's equality and diversity strategy and monitoring arrangements. In addition, the College has an approved equality outcomes policy. A range of activities were carried out during 2018-19 to deliver this aim.

## Equality and Diversity Support for Staff and Students

Ayrshire College is fully committed to challenging discrimination, advancing equality of opportunity, promoting inclusion and celebrating the diversity of all of its students, staff, visitors and College partners. Through ongoing training and a strong focus on this area, Ayrshire College ensures that our students, staff and stakeholders are treated equally regardless of race, gender, sexual orientation, disability, religion, marital or civil partnership status and / or age.

This means as a College we aim to deliver high quality learning and working experiences which are accessible to everyone in the communities the College serves. The College is working hard to achieve this aim because we believe everyone should have a fair chance and opportunity to be successful. We continue to move forward positively in these respects. By all working together to foster an inclusive, supportive and accessible College culture and environment, Ayrshire College is a first choice place of learning and working

The ELT and Board of Management lead the College's equality and diversity strategy and monitoring arrangements. They are supported by our dedicated Equality and Inclusion team and our Values, Inclusion, Equality and Wellbeing (VIEW) Steering Group. The VIEW Steering Group provides leadership to mainstream and embed equality across the College. The aims and objectives of the VIEW Steering Group primarily focus on the College's Equality Outcomes acting as the lead to support progress in delivering the outcomes successfully. Led by the Director of HR & OD, the VIEW Steering Group continues to support its operational sub-groups including the Promoting Mental Wellbeing Group.

During 2018-19 the College continued to work as a lead partner in the Ayrshire LGBT+ Education Network. The Network is a forum for sharing best practice to better the educational experiences of LGBT+ children, young people and adults learning in local schools, the College and any other learning spaces in Ayrshire.

### **Health Safety and Wellbeing**

It is the policy of the College to pursue progressive improvement in the Health, Safety and Wellbeing of staff, students and visitors and take all reasonable steps to provide safe and healthy conditions in which to study, learn and work.

A range of developments were undertaken during 2018-19 to promote our culture of health, safety and wellbeing. These developments built on the strong foundation of work undertaken by the College prior to 2018-19.

### **Student Involvement**

The College places great importance on the student voice and the role of the Student Association. The Sabbatical President and Vice President are members of the Board of Management. In addition, each year students are invited to give feedback to the College through a range of formal and informal routes.

### **Disclosure of Information to Auditors**

The members of the Board of Management confirm that, so far as they are aware, there is no relevant audit information of which the College's auditors are unaware; and each member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the College's auditors are aware of that information.

The performance report is approved by order of the members of the Board of Management and signed on its behalf by:

**W Mackie**

**Chair**

12 December 2019

**C Turnbull**

**Principal**

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# ACCOUNTABILITY REPORT

**Corporate Governance Report**

**Statement of Board of Management's Responsibilities**

**Remuneration and Staff Report**

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## CORPORATE GOVERNANCE REPORT

Colleges are required to demonstrate robust governance, maintain a sound system of internal control and to ensure that the following key principles of effective risk management have been applied.

The College is committed to exhibiting best practice in all aspects of Corporate Governance. This summary describes the manner in which the College has applied the principles set out in the Code of Good Governance for Scotland's Colleges. Its purpose is to help the reader of the accounts understand how the principles have been applied.

In the opinion of the Board of Management, the College has complied with the Scottish Public Finance Manual (SPFM) throughout the year ended 31 July 2019. The College complies with all the principles of the 2016 Code of Good Governance for Scotland's Colleges and it has complied throughout the year ended 31 July 2019.

### Board of Management

The Board of Management is responsible for the overall functioning and strategic direction of the College, including responsibility for planning the future development of the College and ensuring its effective management. In so doing, the Board of Management maintains an overarching responsibility for the management and conduct of College affairs including the provision of the best possible education and learning environment for its students, the equality and diversity of staff and students; corporate governance and risk management; finance, planning, monitoring and audit; maintaining quality and standards; and maintaining the College estate. The Board of Management must also ensure that there is an adequate system of accounting and internal control which meets accepted accounting, budgetary control and auditing standards.

The Board of Management, and through its committees, is provided with regular information on the overall financial performance of the College. The Board also receives information on performance against targets, quality matters and other related issues such as health, safety and well-being.

The Board of Management meets on a quarterly basis but may hold additional meetings as needs demand. Meeting papers and confirmed minutes of all Board of Management meetings, and the meetings of the Board's committees are available from the Secretary to the Board of Management and are published on the College Website. Those papers and sections of the minutes deemed confidential by the Board of Management for reasons of commercial confidentiality or data protection are normally "reserved" and are not available to the public.

Formal agendas, papers and reports are supplied to members in a timely manner prior to board and committee meetings. Briefings are also provided to members on an ad-hoc basis.

### Directors' Report

This section of the report sets out the members who served on the Board of Management during the year to 31 July 2019 (Table 5).

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**Table 5 – Serving Board Members 2018-19**

Board Member	Committees Served	Status of Appointment	Date of Appointment	Date of Resignation
Mr W Mackie	<ul style="list-style-type: none"> <li>Business, Resources &amp; Infrastructure</li> <li>Performance, Review &amp; Remuneration</li> <li>Search &amp; Nomination</li> </ul>	Chair of Ayrshire College BOM  Chair of Ayrshire Regional College BOM	01.08.13  03.03.14 Reappointed 03.03.18	
Ms N A M Beveridge	<ul style="list-style-type: none"> <li>Business, Resources &amp; Infrastructure</li> <li>Performance, Review &amp; Remuneration</li> <li>Search &amp; Nomination</li> </ul>	Non-Executive Board Member	01.08.14 Reappointed 01.08.18	31.07.19
Ms M Bryan	<ul style="list-style-type: none"> <li>Business, Resources &amp; Infrastructure</li> <li>Learning &amp; Teaching</li> </ul>	Non-Executive Board Member	01.08.16	
Mrs H Dunk	<ul style="list-style-type: none"> <li>Business, Resources &amp; Infrastructure</li> <li>Learning and Teaching</li> </ul>	Principal	01.08.14	8.04.19
Ms F Fawdry	<ul style="list-style-type: none"> <li>Audit</li> <li>Learning &amp; Teaching</li> </ul>	Non-Executive Board Member	01.08.14 Reappointed 01.08.18	31.07.19
Mr C Hall	<ul style="list-style-type: none"> <li>Business, Resources &amp; Infrastructure</li> <li>Learning &amp; Teaching</li> </ul>	Elected Curriculum/Support Staff	01.08.18	
Mr G James	<ul style="list-style-type: none"> <li>Audit</li> <li>Learning &amp; Teaching</li> <li>Performance Review &amp; Remuneration</li> <li>Search &amp; Nomination</li> </ul>	Non-Executive Board Member	01.08.14 Reappointed 01.08.16	
Mr S Keir	<ul style="list-style-type: none"> <li>Audit</li> <li>Learning &amp; Teaching</li> </ul>	Non-Executive Board Member	01.08.18	15.11.18
Mr J McCrindle	<ul style="list-style-type: none"> <li>Learning &amp; Teaching</li> </ul>	Elected Student Member	01.08.18	
Juliana Pyper-McFarland	<ul style="list-style-type: none"> <li>Learning &amp; Teaching</li> </ul>	Elected Service/Support Staff	01.08.15	31.07.19
Prof. F McQueen	<ul style="list-style-type: none"> <li>Business, Resources &amp; Infrastructure</li> <li>Learning and Teaching</li> </ul>	Non-Executive Board Member	01.08.18	
Ms H Murphy	<ul style="list-style-type: none"> <li>Audit</li> <li>Business, Resources &amp; Infrastructure</li> </ul>	Non-Executive Board Member	01.08.18	

Board Member	Committees Served	Status of Appointment	Date of Appointment	Date of Resignation
Mr K Simpson	<ul style="list-style-type: none"> <li>Business, Resources &amp; Infrastructure</li> <li>Learning and Teaching</li> </ul>	Elected Student Member	01.08.18	31.07.19
Ms C Turnbull	<ul style="list-style-type: none"> <li>Business, Resources &amp; Infrastructure</li> <li>Learning and Teaching</li> </ul>	Principal	01.03.19	
Mr A Walker	<ul style="list-style-type: none"> <li>Audit</li> <li>Performance, Review &amp; Remuneration</li> <li>Search &amp; Nomination</li> </ul>	Non-Executive Board Member	01.08.14 Reappointed from 01.08.17	
Mr S Wallace	<ul style="list-style-type: none"> <li>Audit</li> <li>Business, Resources &amp; Infrastructure</li> </ul>	Non-Executive Board Member	01.08.18	
Mr T Wallace	<ul style="list-style-type: none"> <li>Business, Resources &amp; Infrastructure</li> <li>Learning &amp; Teaching</li> <li>Performance Review &amp; Remuneration</li> <li>Search &amp; Nomination</li> </ul>	Non-Executive Board Member	01.08.14 Reappointed from 01.08.16	Date of Death 15.07.19
Ms M Welsh	<ul style="list-style-type: none"> <li>Audit</li> </ul>	Non-Executive Board Member	24.03.16	31.07.19

Table 6 details the number of Board of Management meetings that took place during the individual members' time as a board member during 2018-19 and how many of these meetings that they were able to attend.

**Table 6 – Board Members Attendance 2018-19**

Board Member	Board Meetings During Appointment	Board Meetings Attended
Mr W Mackie	4	4
Ms N A M Beveridge	4	4
Ms M Bryan	4	4
Mrs H Dunk	2	2
Ms F Fawdry	3	0
Mr C Hall	4	3
Mr G James	4	3
Mr S Keir	1	0
Mr J McCrindle	4	4
Juliana Pyper-McFarland	4	2
Prof. F McQueen	4	3

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Board Member	Board Meetings During Appointment	Board Meetings Attended
Ms H Murphy	4	3
Mr K Simpson	4	4
Ms C Turnbull	2	1
Mr A Walker	4	3
Mr S Wallace	4	3
Mr T Wallace	4	3
Ms M Welsh	4	3

The College has an independent Board Secretary to support the work of the Board of Management.

The Board of Management conducts its business through a number of committees. The committees comprise members of the Board of Management. Committees and the Board also have the authority to co-opt members, but co-opted members may not Chair or vote at meetings. In 2018-19 the only co-opted member was Mr Douglas Mundie, as the requisite external member of the Search and Nomination Committee. The Board of Management has a strong and independent non-executive element of up to twelve members and no individual or group dominates its decision making process. The Board of Management considers that each of its non-executive members is independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. In addition, the Board contains six members who are outwith the non-executive category. These are the Chair (appointed by Scottish Ministers), the Principal (ex-officio), two elected student members and two elected staff members. These members are also expected to exercise impartiality of judgement and be free from any external influence or relationship that could materially interfere with the exercise of their independent judgement as board members.

### Register of Interests

The Secretary to the Board of Management maintains a register of financial and personal interests of the members of the Board of Management, in so far as these relate to the activities of Ayrshire College. The register is available for inspection at Ayrshire College, Ayr Campus, Dam Park, Ayr KA8 0EU and is published on the College website.

### Appointments to the Board of Management

The Board of Management consists of not less than fifteen, but not more than eighteen persons, of which not less than half shall be drawn from persons engaged in industrial, commercial or employment matters or from the professions or persons with an interest in and the ability to contribute to the management of the College. This is in line with the provisions of The Post-16 Education (Scotland) Act 2013. The other Board members include the Board Chair, who is appointed by the Scottish Government, the Principal, a curriculum/teaching staff member, a support/service staff member and two student members.

Any new appointments to the Board of Management are a matter for the consideration of the Board of Management as a whole. As such, there is a Search and Nomination Committee that is responsible for the selection and nomination of any new member for the Board of Management's consideration. The Board of Management has an induction programme in place and Board development activities were held during 2018-19.

### Audit Committee

The Audit Committee consists of non-executive members from the Board of Management. The Chair of the Board of Management and Principal are not members of the Audit Committee. This Committee's responsibilities are to oversee 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. The Audit Committee has been delegated responsibility for ensuring the system of risk management established by Ayrshire College remains fit for purpose and is being appropriately maintained.

### **Business, Resources and Infrastructure Committee**

The Business, Resources and Infrastructure Committee consists of members from the Board of Management including the Principal and the Chair of the Board. This Committee's responsibilities are to oversee the strategic and operational financial planning of the College and provide assurance to the Board on the financial expenditure, financial management and performance of the College. The Committee is responsible for overseeing the strategic and operational planning of Organisational Development within the College and providing assurance to the Board on Organisational/HR issues as well as the organisational performance of the College. In addition, the Committee oversees the strategic and operational planning of the estates function within the College and provides assurance with regard to College estates matters to the Board.

### **Learning and Teaching Committee**

The Learning and Teaching Committee consists of members from the Board of Management including the Principal and at least one student member. This Committee's responsibilities are to oversee the strategic and operational planning of Learning and Teaching within the College and provide assurance to the Board on student issues and the learning and teaching performance of the College.

### **Performance Review and Remuneration Committee**

Membership of this Committee comprises the Chair of the Board of Management, the Vice Chair, the Senior Independent Member and the Chairs of each of the Board's committees. This Committee's responsibilities are to agree remuneration for the Principal and Vice Principals, taking account of any advice given by the SFC in the remuneration of the Principal and senior managers, taking account of any guidelines issued by the Scottish Government and/or UK Treasury and reporting to the Board of Management on remuneration for senior staff.

### **Search and Nomination Committee**

Membership of this Committee comprises the Chair of the Board of Management, the Vice Chair, the Senior Independent Member and the chairs of each of the Board's committees. Where the business of the Committee is to take an appointment or appointments, the membership will also include an independent external co-opted member approved by the Board. This Committee's responsibilities are to oversee the appointment of the College Principal, oversee the recruitment and recommendation of new board members and to consider the reappointment of current members to the Board of Management. The Committee does this by ensuring that the search and nomination process is conducted in a fair and non-discriminatory manner with due regard to issues of equality, diversity and opportunity in any appointments recommended.

### **Personal data-related incidents**

SFC requires colleges to outline any significant lapses of data security that take place during the year. During 2018-19 Ayrshire College reported no data-related incidents to the Commissioner's Office.

## **GOVERNANCE STATEMENT**

### **Principal Risks and Uncertainties**

The College's Board of Management is ultimately responsible for the College's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Executive Leadership Team (ELT) and Senior Leadership Team (SLT) monitor key performance and risk indicators and considers possible control issues brought to its attention through operational planning and monitoring. The ELT/SLT and the Audit Committee also receive regular reports from Internal Audit which include recommendations for improvement.

The previous principal, Heather Dunk, left the College on 8 April 2019 and the new Principal, Carol Turnbull, took up post on 1 March 2019. Handover meetings were held between the outgoing and incoming principals and the Chair. The new Principal has received full assurances over the Governance arrangements in place at the College from the Executive Leadership Team for the year ended 31 July 2019.

The Internal Audit service for 2018-19 was performed by BDO and concentrated on areas of key activities determined by risk analysis and in accordance with the annual internal audit plan approved by the Audit Committee. The Internal Auditors had direct access to the Chair of the Audit Committee and issued an annual report with an opinion on the adequacy, reliability and effectiveness of the College's internal control system.

The Audit Committee considers the management of risk at each committee meeting. The College Risk Register is updated quarterly and presented to every Audit Committee and Board of Management meeting. Each substantive sub-committee of the Board receives and considers the Committee's extract from the current version of the Corporate Risk Register. The committees advise the Audit Committee accordingly on any changes to the risk or to new risks that have arisen.

The individual risks identified in the College Risk Register are clustered together based on the remit of the Board and each College committee, with the risk groupings relating to:

- Board of Management
- Business, Resources and Infrastructure
- Learning and Teaching

There is no 'Risk Cluster' specifically identified for the Audit Committee as the overall management of risks is within this Committee's Terms of Reference. The Board of Management also reviews the College Risk Register at each of its meetings.

### **Infrastructure Strategy**

The College's Infrastructure Strategy sets out our vision for the Estates, Facilities and Infrastructure of Ayrshire College. Its purpose is to help facilitate the College's strategic goals outlined in the Strategic Plan 2017-2020. Its success will be crucial to the delivery of excellence in learning and teaching. The College's Infrastructure Strategy was approved by the BRIC Committee in March 2018.

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## **STATEMENT OF INTERNAL CONTROL**

### **Scope of Responsibility**

The College's governing body is its Board of Management which is responsible for the College's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

### **Purpose of the System of Internal Control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on ongoing processes designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of these risks being realised and the impact should they be realised, and to manage them effectively and economically.

### **Capacity to Handle Risk**

The Board of Management has reviewed the key risks to which the College is exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. These key risks are identified and addressed within the risk register maintained by the College during the twelve months to 31 July 2019.

### **The Risk and Control Framework**

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties and a system of delegation and accountability. In particular, it includes:

- Comprehensive budgeting systems with an annual budget which is reviewed and approved by the Board of Management.
- Regular reviews by the Board of Management of periodic and annual financial reports which indicate financial performance against targets.
- Setting targets to measure financial and other performance.
- The operation of and reporting to the Board of Management from an Internal Audit service.

The College's Internal Auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input, and report their findings to Management and the Audit Committee.

Management is responsible for the implementation of agreed audit recommendations and the College's Internal Auditors undertake periodic follow-up reviews to ensure that such recommendations have been implemented. The Audit Committee considers detailed reports together with recommendations for the improvement of the College's systems of internal control and management's responses and implementation plans. It also receives and considers reports from SFC and other key agencies as they affect the College's business and monitors adherence to the regulatory requirements.

## Review of Effectiveness

The review of effectiveness of the system of internal control is informed by:

- The work of Internal Auditors, including their Annual Report on the College's control environment
- The work of college managers, who have responsibility for the development and maintenance of internal control framework
- Comments made by the College's External Auditors
- Comments made by the auditors appointed to audit specific areas such as the delivery of the credits target and the disbursement of student support funds.

The ELT receives reports setting out key performance and risk indicators and considers possible control issues brought to its attention by early warning systems which are embedded within the operational units and reinforced by risk awareness training. The ELT and the Audit Committee also receive regular reports from Internal Audit which include recommendations for improvement.

## Going Concern

After making appropriate enquiries, the Board of Management considers that the College has adequate resources to continue operations for AY2019-20. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

## Conclusion

The College has again made significant progress over the last year, particularly in the areas of corporate governance, high quality learning and teaching, improving student outcomes, strategic planning and improving our College estate.

Approved by order of the members of the Board on 12 December 2019 and signed on its behalf by:

**W Mackie**  
Chair

**C Turnbull**  
Principal

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## STATEMENT OF THE BOARD OF MANAGEMENT'S RESPONSIBILITIES

The Board of Management is required to present audited financial statements for each financial year.

In accordance with the Further and Higher Education (Scotland) Act 1992, the Board of Management is responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board of Management is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and 2005, the Statement of Recommended Practice on Accounting for Further and Higher Education, the 2018-19 Government Financial Reporting Manual (FRoM) and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between SFC and the College's Board of Management, the Board of Management, through its designated office holder, is required to prepare financial statements for each financial period which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that period.

The financial statements are prepared in accordance with the accounts direction issued by SFC, which brings together the provisions of the financial memorandum with other formal disclosures that SFC requires the Board of Management to make in the financial statements and related notes. The College is a public benefit entity and has therefore also applied the public benefit requirements of FRS 102.

In preparing the financial statements, the Board of Management is required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare financial statements on the going concern basis, unless it is inappropriate to presume that the College will continue in operation.

The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future and for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Management has taken reasonable steps to:

- Ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- Ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- Safeguard the assets of the College and prevent and detect fraud;
- Secure the economical, efficient and effective management of the College's resources and expenditure.

The key elements of the College's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- Clear definitions of the responsibilities of, and the authority delegated to, managers across the College;
- A comprehensive planning process, supplemented by detailed annual budgets including income, expenditure, capital and cash flows;
- Regular reviews of key performance indicators and business risks and monthly reviews of financial results involving variance reporting and updates of forecast outturns;
- Clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management;
- Comprehensive financial regulations, detailing financial controls and procedures, approved by the Audit Committee, BRIC and the Board of Management;
- A professional internal audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Management and whose head provides the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

Any system of internal financial control can however only provide reasonable, but not absolute, assurance against material misstatement or loss.

Approved by order of the members of the Board of Management and signed on its behalf by:

**W Mackie**

**Chair**

**C Turnbull**

**Principal**

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## REMUNERATION AND STAFF REPORT

### Remuneration Policy

The post of Principal and the additional posts which make up the College's SLT (the Vice Principals and directors) are not covered by national negotiating arrangements, within the terms of the National Recognition and Procedures Agreement (NRPA). All other service staff posts are covered by the NRPA with regard to the negotiation of contractual issues in respect of terms and conditions of service and salaries.

The Principal's, Vice Principals' and Directors' salaries are on incremental salary scales, with annual contractual increments on the anniversary of appointment. There are no contractual arrangements for either performance related pay or for the payment of bonuses.

The remuneration of the Chair is set by Scottish Ministers as detailed in Note 8 to these financial statements.

### Operation of the Remuneration Committee

Membership of the Remuneration Committee comprises the Chair of the Board of Management and the chairs of each of the Board's committees. The Principal is not a member of the Remuneration Committee. This Committee's responsibilities are to agree remuneration for the Principal and Vice Principals, taking account of any advice given by the SFC in the remuneration of the Principal and senior managers, taking account of any guidelines issued by the Scottish Government and/or UK Treasury and reporting to the Board of Management on remuneration for senior staff.

The Principal could be called to attend a Remuneration Committee meeting for the purpose of presenting any paper relevant to the salary scale of members of the Vice Principals. However, since the Principal is not a member of the Remuneration Committee, the Principal would not be present during any decision making in this regard.

The Vice Principal – People can be called to attend the meeting for the purposes of providing professional advice, as required by the Committee.

### Senior Management Remuneration including salary and pension costs

#### Salary entitlements

In this section of the report the College has set out, in bands of £5,000, the remuneration of senior management during 2018-19 (Table 7).

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**Table 7 – Remuneration of Senior Management 2018-19**

Name	12 months ended 31 July 2019			12 months ended 31 July 2018		
	Salary £000	Pension benefit £000	Total £000	Salary £000	Pension benefit £000	Total £000
C Turnbull, Principal (started 1/3/19)*	55-60	17	70-75	-	-	-
H Dunk, Principal (left 8/4/19)	100-105	19	115-120	135-140	5	140-145
M Breen, Vice Principal	90-95	40	130-135	90-95	36	125-130
J McKie, Vice Principal	90-95	36	125-130	90-95	34	120-125
A Campbell, Vice Principal (started 1/3/19)*	35-40	47	80-85	-	-	-
J Galbraith, Vice Principal (left 3/8/18)*	0-5	-	0-5	90-95	32	120-125
D Vallance, Vice Principal (left 28/9/18)*	10-15	5	15-20	85-90	31	115-120

\* Please note the salary band reflects the actual salary paid during 2018-19 and not the salary band of the post held by the individual.

The details in the tables in this section of the report are subject to audit. The format of the tables have been set by the SFC as part of its accounts direction to colleges for 2018-19.

The pension benefit figure included within Table 7 is derived by using a calculation set out by SFC in the 2018-19 accounts direction. The accounts direction states that:

*“the value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20 less the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension right”.*

### **Median Remuneration**

Colleges are required by the FReM to disclose the relationship between the remuneration of the highest paid official and the median (middle of the range) remuneration of their workforce.

The midpoint band of the remuneration of the highest paid official in the organisation in financial year 2018-19 was £132,500 (2017-18, £137,500). This was 3.6 times (2017-18, 4 times) the median remuneration of the workforce which was £37,295 (2017-18, £34,515)

### **Accrued Pension Benefits**

Pension benefits for employees are provided through the Scottish Teacher's Superannuation Scheme (STSS), a defined benefit scheme, which is notionally funded and contracted out of State Earnings-Related Pension Scheme, and the Strathclyde Pension Fund (SPF), a Local Government Pension Scheme.

Both STSS and the SPF were final salary pension schemes up to 31 March 2015. This means that pension benefits for service prior to that date are based on the final year's pay and the number of years that the



person has been a member of the scheme. Since 1 April 2015 both schemes have moved to being Career Average Schemes in respect of service since that date.

Contribution rates for these two schemes are set annually for all employees, with the employer contribution rate being the same percentage of gross salary for all members of the respective schemes. Employee contribution rates increase in line with gross salary as set out in the rules for each scheme.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on final pensionable salary and years of pensionable service.

### Senior Officials' Pension

Pension benefits are provided to senior officials on the same basis as all other staff. The senior officials are members of either the STSS or the SPF as noted below.

This section of the report sets out the accrued pension benefits for senior officials together made with the pension contributions made by the College (Table 8).

**Table 8 – Employer's Contributions by Senior Official**

Name	Senior Official's Pension Scheme	Accrued pension at pension age at 31 July 2019 £000	Accrued lump sum at pension age at 31 July 2019 £000	Real increase in pension 1 August 2018 to 31 July 2019 £000	Real increase in lump sum 1 August 2018 to 31 July 2019 £000	CETV at 31 July 2019 £000	CETV at 31 July 2018 £000	Real increase in CETV £000
C Turnbull *	SPF	1	-	1	-	18	-	18
M Breen	SPF	30	39	2	1	460	388	72
A Campbell	STSS	20	41	3	4	270	233	37
J McKie	SPF	18	2	2	-	333	280	53

### Cash Equivalent Transfer Value

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time.

The value of the accrued pension benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation. The pension figures shown relate to the benefits that the person has accrued as a consequence of their total Local Government service or transferred service from previous employment and not just their current appointment.

In considering the accrued pension benefits figures the following contextual information should be taken into account:

- The figures for pension and lump sum are illustrative only in light of the assumptions set out above and do not necessarily reflect the actual benefits that any individual may receive upon retirement.
- The accrued benefits figures are reflective of the pension contributions that both the employer and the scheme member have made over a period of time.

\*As at the date of signing, the transfer of funds from a previous pension provider has not been enacted and the CETV represents benefits accruing from current employment only.

### Compensation for loss of office

No compensation payments were made for the loss of office during 2018-19.

37 members of staff left under an SFC approved voluntary scheme during 2018-19. Voluntary severance payments made to these members of staff totaled £1,014,677. Two members of staff earning in excess of £60,000 per annum received voluntary severance payments. In both instances the payments were in line with the voluntary severance scheme approved by SFC and both payments were approved by SFC before they were paid to the individual members of staff. These payments were on the same basis as all other staff.

The table below summarises the exit packages by cost band.

**Table 9 – Voluntary Severance Payments 2018-19**

Exit package cost band	Number of voluntary redundancies	Number of other departures agreed (including any compulsory redundancies)	Total number of exit packages by cost band
<£10,000	10	-	10
£10,000 - £25,000	12	-	12
£25,000 - £50,000	9	-	9
£50,000 - £100,000	6	-	6
£100,000 - £150,000	-	-	-
£150,000 - £200,000	-	-	-
Total number of exit packages	37	-	37
<b>Total cost (£)</b>	<b>£1,014,677</b>	<b>£0</b>	<b>£1,014,677</b>

Salaries and related costs for 2018-19 totalled £31,388,000 (Table 10).

**Table 10 – Salaries and Related Costs 2018-19**

	2019			2018
	Directly employed staff £000	Seconded and agency staff £000	Total £000	Total £000
Wages and salaries	24,761	72	24,833	24,761
Social security costs	2,466	-	2,466	2,401
Other pension costs	4,089	-	4,089	4,023
<b>TOTAL</b>	<b>31,296</b>	<b>72</b>	<b>31,388</b>	<b>31,185</b>
Average number of FTEs			732	757

### Sickness Absence

Total sickness absence during 2018-19 was 4.02%. This was due to short-term and long-term sickness absence levels. The figures for 2018-19 are as follows:

Short-term	1.73%
Long-term	2.29%
<b>Total</b>	<b>4.02%</b>

Short-term absence is any absence lasting less than 28 days. Long-term absence is any absence lasting 28 days or more.

### Trade Union Facility Time

In accordance with the Trade Union (Facility Time Publication Requirements) Regulations 2017, Ayrshire College provided support through paid facility time for union officials working at the College. The information for the year ended 31 March 2019 is set out in the Tables 11 to 13.

**Table 11 – Relevant Union Officials**

Number of employees who were union officials during 2018-19	Employee number by FTE:
9.0	1.02

**Table 12 – Percentage of Time Spent on Facility Time**

Percentage	Number of Employees
0%	0
1%-50%	9
51%-99%	0
100%	0

**Table 13 – Percentage of Pay Bill Spent on Facility Time**

<b>Total cost of facility time</b>	<b>£115,370</b>
<b>Total pay bill</b>	<b>£31,282,668</b>
<b>Percentage of total pay bill spent on facility time</b>	<b>0.4%</b>

Total time spent on trade union activities as a percentage of total paid facility time hours during 2018-19 was 100%. The College also releases union officials to support staff with other meetings as required.

## Approval of the Remuneration Report

The Remuneration Report has been approved by the Board of Management and is signed on its behalf on 12 December 2019 by:

**W Mackie**

**C Turnbull**

**Chair**

**Principal**



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## Independent auditor's report to the members of the Board of Management of Ayrshire College, the Auditor General for Scotland and the Scottish Parliament

### Independent auditor's report to the members of the Board of Management of Ayrshire College, the Auditor General for Scotland and the Scottish Parliament

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

#### Report on the audit of the financial statements

##### Opinion on financial statements

We have audited the financial statements in the annual report and accounts of Ayrshire College for the year ended 31 July 2019 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Income and Expenditure, Statement of Changes in Reserves, Balance Sheet, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2019 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

##### Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Auditor General for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Auditor General on 31 May 2016. The period of total uninterrupted appointment is five years. We are independent of the College in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the board. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the college has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of

accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Risks of material misstatement**

We have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Other information in the annual report and accounts**

The Board of Management is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the remuneration and staff report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with our audit of the financial statements in accordance with ISAs (UK), our responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Report on regularity of expenditure and income**

#### **Opinion on regularity**

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

#### **Responsibilities for regularity**

The Board of Management is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

#### **Report on other requirements**

#### **Opinions on other matters prescribed by the Auditor General for Scotland**

In our opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; and
- The information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

**Matters on which we are required to report by exception**

We are required by The Charities Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Lucy Nutley,  
For and on behalf of Mazars LLP  
100 Queen Street  
Glasgow  
G1 3DN  
December 2019

Lucy Nutley is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000

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**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR TO 31 JULY 2019**

	Note	Recurring	Non-recurring	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
<b>INCOME</b>					
SFC grants	2	43,594	2,824	46,418	41,230
Tuition fees and education contracts	3	4,269	-	4,269	4,157
Other grants and contracts	4	741	-	741	2,026
Other income	5	2,518	-	2,518	2,182
Investment income	6	6	-	6	3
<b>Total Income</b>		<b>51,128</b>	<b>2,824</b>	<b>53,952</b>	<b>49,598</b>
<b>EXPENDITURE</b>					
Staff costs	7	34,833	-	34,833	32,905
Restructuring costs	7	-	982	982	-
Release of Provision / Impairment of Buildings		-	(332)	(332)	1,250
Exceptional Costs re NPD Contract		-	1,809	1,809	-
Other operating expenses	9	10,808	-	10,808	10,643
Depreciation	12	3,955	-	3,955	3,735
Interest and other financial costs	10	3,249	-	3,249	3,618
<b>Total Expenditure</b>		<b>52,845</b>	<b>2,459</b>	<b>55,304</b>	<b>52,151</b>
<b>Surplus/(deficit) before other gains/(losses)</b>		<b>(1,717)</b>	<b>365</b>	<b>(1,352)</b>	<b>(2,553)</b>
Gain/(loss) on disposal of assets		-	-	-	235
<b>Surplus/(deficit) before tax</b>		<b>(1,717)</b>	<b>365</b>	<b>(1,352)</b>	<b>(2,318)</b>
Taxation	11	-	-	-	-
<b>(Deficit) for the year</b>		<b>(1,717)</b>	<b>365</b>	<b>(1,352)</b>	<b>(2,318)</b>
Unrealised surplus on revaluation of assets				-	96,347
Release of Restricted Funds in year				-	-
Disposal of Properties in Revaluation Reserve				-	-
Actuarial gain / (loss) in respect of pension schemes				(5,400)	12,056
<b>Total Comprehensive Income for the year</b>				<b>(6,752)</b>	<b>20,085</b>

All items of income and expenditure relate to continuing activities and are unrestricted.

The Statement of Comprehensive Income is prepared under the FE/HE SORP. Colleges are also subject to Central Government accounting rules but the FE/HE SORP does not permit colleges to include Government non-cash allocations for depreciation in the Statement of Comprehensive Income. Note 32 provides details of the adjusted operating position on a Central Government accounting basis.



## STATEMENT OF CHANGES IN RESERVES

	Income and Expenditure Account £000	Restricted Reserves £000	Revaluation Reserve £000	Total £000
<b>Balance at 31 July 2018</b>	<b>4,533</b>	<b>466</b>	<b>35,953</b>	<b>40,952</b>
Surplus/(deficit) from the income and expenditure statement	(1,352)	-	-	(1,352)
Transfers from pension reserve to income and expenditure reserve	(5,400)	-	-	(5,400)
Revaluation	-	-	-	-
Transfers between revaluation and income and expenditure reserve – HC Depreciation	972	-	(972)	-
Disposal of Properties – Holehouse Road	1,050	-	(1,050)	-
Impairment of Properties	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>(4,730)</b>	<b>-</b>	<b>(2,022)</b>	<b>(6,752)</b>
<b>Balance at 31 July 2019</b>	<b>(197)</b>	<b>466</b>	<b>33,931</b>	<b>34,200</b>

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**BALANCE SHEET AS AT 31 JULY 2019**

	Note	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
<b>Fixed Assets</b>			
Tangible fixed assets	12	<b>110,144</b>	113,396
<b>Total fixed assets</b>		<b>110,144</b>	113,396
<b>Current Assets</b>			
Stocks		<b>21</b>	23
Debtors	13	<b>2,028</b>	1,301
Debtors outwith one year	14	-	-
Cash and cash equivalents	20	<b>2,705</b>	1,723
Total current assets		<b>4,754</b>	3,047
<b>Less: Creditors – amounts falling due within one year</b>	15	<b>7,152</b>	7,295
<b>Net current assets/(liabilities)</b>		<b>(2,398)</b>	(4,248)
<b>Total assets less current liabilities</b>		<b>107,746</b>	109,148
Less: Creditors – amounts falling due after more than one year	16	<b>48,687</b>	50,971
Less: Deferred capital grants due to be released after one year	17	<b>10,115</b>	9,968
<b>Provisions</b>			
Early Retirement Provision	18	<b>1,277</b>	1,676
Other Provisions	18	<b>854</b>	1,186
<b>Net Assets excluding pension liability</b>		<b>46,813</b>	45,347
<b>Net pension liability</b>	21	<b>(12,613)</b>	(4,395)
<b>NET ASSETS INCLUDING PENSION LIABILITY</b>		<b>34,200</b>	40,952
Income and expenditure account excluding pension reserve			
	19	<b>12,416</b>	8,928
Pension reserve	19	<b>(12,613)</b>	(4,395)
		<b>(197)</b>	4,533
Restricted Reserves		<b>466</b>	466
Revaluation Reserve	19	<b>33,931</b>	35,953
<b>TOTAL RESERVES</b>		<b>34,200</b>	40,952

The financial statements on pages 35 to 61 were approved by the Board of Management on 12 December 2019 and were signed on its behalf on that date by:

**W Mackie**

Chair

**C Turnbull**

Principal

**CASH FLOW STATEMENT FOR THE YEAR TO 31 JULY 2019**

		Year ended 31 July 2019	Year ended 31 July 2018
	Note	£000	£000
<b>Cash inflow from operating activities</b>			
Surplus/(deficit) for the year		(1,352)	(2,318)
<b>Adjustment for non cash items</b>			
Depreciation	12	3,955	3,735
Net (gain)/loss on disposal of fixed assets		-	(235)
Deferred capital grants released to income	17	(1,242)	(1,479)
(Increase)/decrease in stock		2	15
(Increase)/decrease in debtors	13	(727)	(202)
Increase/(decrease) in creditors	15	4	171
(Decrease)/increase in provisions	18	(731)	(64)
(Decrease)/increase in reserves		-	-
Impairments of Buildings	12	-	1,250
Net return on pension liability	21	2,818	2,130
Returns on investments and servicing of finance		(154)	(407)
Taxation		-	-
<b>Cash flows from investing and financing activities</b>			
Interest receivable – bank interest	6	(6)	(3)
Interest payable	10	160	410
PFI/NPD Capital Payments	16	(2,177)	(2,075)
Purchase of tangible fixed assets	12	(1,753)	(3,435)
Proceeds from sale of tangible fixed assets		1,050	277
Deferred Capital Grants Receipts	17	1,135	1,554
<b>Increase/(decrease) in cash and cash equivalents in the year</b>		<b>982</b>	<b>(676)</b>
<b>Reconciliation of net cash flow to movement in net funds</b>			
Increase/(decrease) in cash and cash equivalents in the year		982	(676)
Net funds at 1 August 2018		1,723	2,399
<b>Net funds at 31 July 2019</b>		<b>2,705</b>	<b>1,723</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Statement of Principal Accounting Policies

#### a) Basis of Preparation

The financial statements are prepared on a going concern basis and show a deficit for the year of (£1,717,000) before non-recurring items, with an accumulated deficit on the income and expenditure reserve of (£197,000). At 31 July 2019, current assets of £4,754,000 included cash and bank balances of £2,705,000. Creditors falling due within one year were £7,152,000, with net current liabilities of (£2,398,000).

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP); *Accounting for Further and Higher Education* and in accordance with applicable Accounting Standards. They conform to guidance published by the Scottish Funding Council. In preparing these financial statements, management has ensured compliance with the requirements of FRS 102.

#### b) Basis of Accounting

The financial statements are prepared under the historical cost convention, modified by the revaluation of certain fixed assets.

#### c) Recognition of income

Income from the sale of goods or services is credited to the Statement of Comprehensive Income when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Funds the College receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure account.

#### d) Grant Funding

Government revenue grants, including the recurrent grants from the Scottish Funding Council (SFC), are recognised in income over the periods in which the College recognises the related costs for which the grant is intended to compensate. Where part of a government grant is deferred, it is recognised as deferred income within creditors and allocated between creditors due within one year and due after more than one year as appropriate.

Government capital grants are recognised in income over the expected useful life of the asset. Other capital grants are recognised in income when the College is entitled to the funds, subject to any performance related conditions being met. The funds will be held in deferred income under creditors until conditions are met.

Grants from non-government sources are recognised in income when the College is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

#### e) Maintenance of premises

The cost of maintenance is charged to the Statement of Comprehensive Income in the period in which it is incurred.

**f) Pension schemes**

Retirement benefits to employees of the College are provided by the Scottish Teachers' Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). The STSS is a defined benefit scheme which is externally funded and contracted out of the State Earnings Related Pension Scheme. Contributions to the STSS are charged to the Statement of Comprehensive Income so as to spread the cost of pensions over employees' working lives with the College. The contributions are determined by qualified actuaries on the basis of periodic valuations using the projected unit method. The SPF is a defined benefit scheme under the definitions set out in FRS102.

**g) Tangible fixed assets**

Private Finance Initiative ('PFI') Assets

PFI contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the service passes to a PFI contractor.

Where the College is subject to the majority of the potential variations in property related profits or losses and has access to the risks and rewards of ownership (which is assessed having regard, in particular, to the quantum of finance provided by the private sector that is, in fact, at risk to the performance of the project) it recognises an asset and a corresponding liability for amounts due to the scheme operator to pay for the asset.

Assets recognised on Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the College.

The amounts payable to the PFI operators each year are analysed into three elements:

- Fair value of the services received during the year
- Finance cost and interest charge on the outstanding Balance sheet liability
- Payment towards liability – applied to write down the Balance sheet liability towards the PFI operator.

The annual cost of the service charge and finance cost are disclosed within Other Operating Expenses and Interest Payable notes 9 and 10 to these financial statements.

NPD Assets

The NPD model was developed and introduced as an alternative to, and has since superseded, the traditional private finance initiative or "PFI" model in Scotland

The Scottish Futures Trust states that the "NPD model is defined by the broad core principles of:

- Enhanced stakeholder involvement in the management of projects
- No dividend bearing equity
- Capped private sector returns."

Guidance on the accounting and resource treatment of NPD payments was issued to colleges with NPD projects in August 2015.

The annual cost of the service charge and finance cost are disclosed within Other Operating Expenses and Interest Payable notes 9 and 10 to these financial statements.

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## g) Tangible fixed assets (continued)

### Land and buildings

Land and buildings inherited from the former Strathclyde Regional Council in 1993 are stated in the Balance Sheet at a valuation on the basis of depreciated replacement cost for specialised properties and open market value for non-specialised properties, as at 31 July 2019, less amounts written off by way of depreciation.

Land and buildings acquired since incorporation are included in the balance sheet at revaluation plus cost where this is over £5,000. Project expenditure is counted as a single asset. Freehold land associated with the buildings and undeveloped freehold land is not depreciated. Freehold building costs are depreciated on a straight line basis over their useful economic life, as assessed by external valuers, as follows:-

Main buildings and infrastructure	(up to) 52 years
Temporary buildings	(up to) 10 years

Leased assets are depreciated over the life of the lease.

### Equipment

The College has attributed no value to equipment inherited from the former Strathclyde Regional Council in 1993. Other equipment is capitalised as follows:-

IT assets	-	Over £1,000 for single items or over £5,000 for groups of related assets
Other assets	-	Over £5,000 for single items or over £10,000 for groups of related assets

Equipment is depreciated on a straight line basis over its useful economic life as follows:-

Computer and media equipment	4 years
Other motor vehicles and equipment	4 to 5 years
Furniture and fittings	8 to 10 years

## h) Leased Assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Leasing agreements that transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

Assets which are held under hire purchase contracts which have the characteristics of finance leases are depreciated over their useful lives.

## i) Stocks

Stocks are items held for resale and are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

## **j) Taxation**

As a Scottish charity, the College benefits by being exempt from corporation tax on income and surpluses which have been derived in pursuing activities designed to carry out the main objects of its charitable status.

The College is exempted from levying VAT on most of the services it provides to students. For this reason, the College is generally unable to recover input VAT it suffers on goods and services purchased for Curriculum Areas. The College is able to recover VAT on certain trading activities and can partially recover some input tax on other non-Curriculum Area expenditure.

## **k) Provisions**

Provisions are recognised when the College has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

## **l) Financial Instruments**

The College only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors and other loans to related parties.

Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received.

## **m) Judgements in applying accounting policies and key sources of estimation uncertainty**

In preparing these financial statements, management have made the following judgements:

- Determine whether leases entered into by the College either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the College's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset.

Other key sources of estimation uncertainty

- Tangible fixed assets

Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation and maintenance programmes are taken into account.

- Local Government Pension Scheme

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 19, will impact the carrying amount of the pension liability.

	Non- recurring	Note	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
<b>2 SFC grants</b>				
FE recurrent grant (including fee waiver)			33,127	32,996
HE & FE childcare funds			863	890
Release of deferred capital grants			1,171	1,414
Maintenance grant			1,332	1,108
NPD UC Grant (include Capital)			4,762	4,755
NPD Grant (final payment)	1,809		1,809	-
SFC ESOL Grant			104	67
SFC Grants re National Bargaining			1,158	-
SFC Grants re VS Costs	1,015		1,015	-
Other SFC Grants			1,077	-
<b>Total</b>			<b>46,418</b>	<b>41,230</b>
<b>3 Tuition fees and education contracts</b>				
FE fees – UK			505	446
FE fees - EU			-	-
FE fees – non EU			-	-
HE fees			2,668	2,760
Education contracts			929	855
Other contracts			167	96
<b>Total</b>			<b>4,269</b>	<b>4,157</b>
<b>4 Other grant income</b>				
European funds			-	-
Grants from Ayrshire College Foundation			670	1,963
Release of deferred capital grants		17	71	63
<b>Total</b>			<b>741</b>	<b>2,026</b>
<b>5 Other operating income</b>				
Catering			1,158	1,186
Other income-generating activities			765	432
Other income			595	564
<b>Total</b>			<b>2,518</b>	<b>2,182</b>
<b>6 Investment Income</b>				
Other interest receivable			6	3
Net return on pension asset/liability			0	0
<b>Total</b>			<b>6</b>	<b>3</b>

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	Year ended 31 July 2019	Year ended 31 July 2018
Note	2019	2018
	£000	£000
<b>7 Staff costs</b>		
Wages and salaries	24,833	24,761
Social security costs	2,466	2,401
Other pension costs	4,089	4,023
	<b>31,388</b>	31,185
FRS 102 pension adjustments	2,658	1,720
Job Evaluation	787	-
<b>Total</b>	<b>34,833</b>	32,905
Curriculum departments	16,475	16,109
Curriculum services	5,592	5,658
Administration and central services	9,907	9,037
Premises	1,396	1,446
Catering	676	655
<b>Sub-total</b>	<b>34,046</b>	32,905
Job Evaluation	787	-
	<b>34,833</b>	32,905
Exceptional restructuring costs	982	-
<b>Total</b>	<b>35,815</b>	32,905

The average number of full-time equivalent employees, including higher paid employees, during the period was:

	2019	2018
	No.	No.
Academic/teaching departments	316	316
Academic/teaching services	129	140
Administration and central services	205	214
Premises staff	54	54
Catering staff	28	33
<b>Total</b>	<b>732</b>	757

The number of staff, including senior post holders and the Principal, who received emoluments in the following ranges were:

	2019	2018
	No.	No.
£50,001 to £60,000 per annum	14	16
£60,001 to £70,000 per annum	2	10
£70,001 to £80,000 per annum	8	-
£80,001 to £90,000 per annum	-	-
£90,001 to £100,000 per annum	3	4
£100,001 to £110,000 per annum	-	-
£110,001 to £120,000 per annum	-	-
£120,001 to £130,000 per annum	-	-
£130,001 to £140,000 per annum	1	1

## 8 Senior post-holders' emoluments

	Note	2019 No.	2018 No.
The number of senior post-holders, including the Principal was:		4	5
		Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Senior post-holders' emoluments are made up as follows:			
Salaries		391	499
Benefits in kind		-	-
Employers Pension contributions		73	93
<b>Total emoluments</b>		<b>464</b>	<b>592</b>

The above emoluments include amounts payable to the Principal, who was also the highest paid senior post-holder, of:

	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Salary – Principal resigned 31/3/19	100	137
Salary – Principal started 1/3/19	55	-
Bonus	-	-
Benefits in kind	-	-
	<b>155</b>	<b>137</b>
Employers Pension contributions	<b>28</b>	<b>23</b>

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## 8 Senior post-holders' emoluments (continued)

In 2018-19 the Principal was a member of the Strathclyde Pension Fund and two other senior post holders were members of the Scottish Teachers Superannuation Scheme. All pension contributions were paid at the same rate as for other members.

The members of the Board of Management, other than the Chair (see below), the Principal and staff members, did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

### Chair's Remuneration

The College has paid the Chair's remuneration, set by Scottish Ministers, as follows:-

2018-19: £27,560

2017-18: £27,560

This remuneration is not pensionable.

	Note	Year Ended 31 July 2019	Year Ended 31 July 2018
		£000	£000
<b>9 Other operating expenses</b>			
Teaching departments		1,672	1,650
Administration and central services		2,341	2,671
Kilwinning Campus PFI service charge		851	822
Hill Street NPD unitary charge		1,325	1,279
Other premises costs		3,105	2,659
Refurbishment works funded by Ayrshire College Foundation		-	-
Childcare costs		863	890
Student Support Bursary Costs		-	-
Catering costs		651	672
<b>Total</b>		<b>10,808</b>	<b>10,643</b>

	Year Ended 31 July 2019	Year Ended 31 July 2018
	£000	£000

Other operating expenses include:

#### Auditors' remuneration

- external audit of these financial statements	33	26
- internal audit services	30	9
- other services	-	-
Operating lease payments	255	239

	Note	Year Ended 31 July 2019	Year Ended 31 July 2018
		£000	£000
<b>10 Interest payable</b>			
Kilwinning Campus PFI interest charge	16	418	468
Hill Street NPD interest charge	16	2,671	2,740
Pension finance costs (Note 21)	21	160	410
<b>Total</b>		<b>3,249</b>	<b>3,618</b>

## 11 Taxation

The Board does not consider that the College was liable for any corporation tax arising out of its activities during the period.

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## 12 Tangible Fixed Assets

	Freehold Land and Buildings £000	Leasehold Land and Buildings £000	PFI Building £000	NPD Building £000	Equipment £000	Total £000
<b>Cost or Valuation</b>						
At 1 August 2018	35,600	1,005	19,711	53,955	12,833	123,104
Additions	1,361	-	17	-	375	1,753
Revaluation	-	-	-	-	-	-
Impairments	-	-	-	-	-	-
Disposals	(1,050)	-	-	-	(861)	(1,911)
<b>At 31 July 2019</b>	<b>35,911</b>	<b>1,005</b>	<b>19,728</b>	<b>53,955</b>	<b>12,347</b>	<b>122,946</b>
<b>Depreciation</b>						
At 1 August 2018	-	324	-	-	9,384	9,708
Provided during year	1,110	79	548	1,053	1,165	3,955
Write back re: revaluation	-	-	-	-	-	-
On disposals	-	-	-	-	(861)	(861)
<b>At 31 July 2019</b>	<b>1,110</b>	<b>403</b>	<b>548</b>	<b>1,053</b>	<b>9,688</b>	<b>12,802</b>
<b>Net Book Value at 31 July 2019</b>	<b>34,801</b>	<b>602</b>	<b>19,180</b>	<b>52,902</b>	<b>2,659</b>	<b>110,144</b>
Net Book Value at 31 July 2018	35,600	681	19,711	53,955	3,449	113,396
Inherited	18,746	35	8,269	6,881	-	33,931
Financed by capital grant	9,148	553	-	-	1,660	11,361
Other	6,907	14	10,911	46,021	999	64,852
<b>At 31 July 2019</b>	<b>34,801</b>	<b>602</b>	<b>19,180</b>	<b>52,902</b>	<b>2,659</b>	<b>110,144</b>

The College's Ayr, Kilwinning and Kilmarnock Campus properties were valued at 31 July 2018 by Gerald Eve in the capacity of external valuer. The basis of valuation adopted was that set out in FRS102 being fair value: market value for existing use or depreciated replacement costs (as defined by the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors), depending on the type of asset being valued.

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	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
<b>13 Debtors: Amounts falling due within one year</b>		
Trade debtors – net of provision for doubtful debts	134	106
European funding	-	-
Other Debtors	150	399
Prepayments and accrued income	1,744	730
Amounts owed by the Scottish Funding Council	-	66
	<b>2,028</b>	<b>1,301</b>

**14 Debtors: Amounts falling due outwith one year**

-	-
-	-

**15 Creditors: Amounts falling due within one year**

Bank loans and overdrafts	-	-
Trade creditors	435	983
Other taxation and social security	885	596
Other Creditors	850	655
Accruals and deferred income	1,112	1,107
PFI Capital payment < 1 year	16 1,004	950
NDP Capital payment < 1 year	16 1,280	1,227
Deferred Capital Grants to be released in <1 year	17 1,246	1,500
Amounts owed to Scottish Funding Council	325	233
Bursaries and Student Support Funds for future disbursements	15	44
	<b>7,152</b>	<b>7,295</b>

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<b>Year ended</b>	<b>Year ended</b>
<b>31 July</b>	<b>31 July</b>
<b>2019</b>	<b>2018</b>
<b>£000</b>	<b>£000</b>

**16 Creditors: Amounts falling due after one year**

Capital Element of Kilwinning PFI expenditure:

At 1 August 2018

Capital payments in year

Less amount due within one year

**At 31 July 2019**

	<b>7,431</b>	8,330
	<b>(950)</b>	(899)
	<b>6,481</b>	7,431
<b>15</b>	<b>(1,004)</b>	(950)
	<b>5,477</b>	6,481

Capital Element of Kilmarnock NPD expenditure:

At 1 August 2018

Capital payments in year

Less amount due within one year

**At 31 July 2019**

	<b>45,717</b>	46,893
	<b>(1,227)</b>	(1,176)
	<b>44,490</b>	45,717
<b>15</b>	<b>(1,280)</b>	(1,227)
	<b>43,210</b>	44,490

**Total**

	<b>48,687</b>	50,971
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**17 Deferred Capital Grants**

	<b>SFC</b>	<b>Non SFC</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>

**At 1 August 2018**

Land and Buildings

Equipment

7,023	2,008	9,031
2,437	-	2,437
<b>9,460</b>	<b>2,008</b>	<b>11,468</b>

**Grants received in the period**

Land and Buildings

Equipment

1,054	-	1,054
81	-	81
<b>1,135</b>	<b>-</b>	<b>1,135</b>

**Released to Income and Expenditure Account**

Land and Buildings

Equipment

(313)	(71)	(384)
(858)	-	(858)
<b>(1,171)</b>	<b>(71)</b>	<b>(1,242)</b>

**At 31 July 2019**

Land and Buildings

Equipment

7,764	1,937	9,701
1,660	-	1,660
<b>9,424</b>	<b>1,937</b>	<b>11,361</b>

Split as follows:

Due to be released in <1 year

Due to be released in >1 year

1,175	71	1,246
8,249	1,866	10,115
<b>9,424</b>	<b>1,937</b>	<b>11,361</b>

	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
<b>18 Provisions for liabilities and charges</b>		
<b>Early Retirement Provision</b>		
At 1 August 2018	1,676	1,810
Expenditure in the period	(91)	(95)
Release of provision	(308)	(39)
<b>At 31 July 2019</b>	<b>1,277</b>	<b>1,676</b>

The above liability is in respect of future pension liabilities arising from early retirements prior to 2006 and now relating to 27 individuals receiving benefits (2017-18: 27). The pension liability has been revalued using SFC actuarial tables.

	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
<b>Other Provisions</b>		
At 1 August 2018	1,186	1,116
Expenditure in the period	(332)	-
Additional provision required in the period	-	70
<b>At 31 July 2019</b>	<b>854</b>	<b>1,186</b>

The majority of the other provisions relates to future lease commitments and dilapidations provisions on the two leased properties, Townholm and Nethermains.

	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
<b>19 Reserves</b>		
<b>Income &amp; Expenditure Account</b>		
At 1 August 2018	8,928	7,040
Surplus/(deficit) for the period	(1,352)	(2,318)
Disposal of properties in RR	1,050	42
Transfer from revaluation reserve	972	784
Impairment of Properties	-	1,250
Transfer to/(from) pension scheme	2,818	2,130
<b>At 31 July 2019</b>	<b>12,416</b>	<b>8,928</b>



## 19 Reserves (continued)

	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
<b>Pension Reserve</b>		
At 1 August 2018	(4,395)	(14,321)
Current service cost	(3,576)	(3,604)
Impact of curtailments	(963)	-
Employer contributions	1,850	1,855
Contributions re unfunded benefits	31	29
Past service costs	-	-
Net return on pension scheme	(160)	(410)
Actuarial gain/(loss) in pension scheme	(5,400)	12,056
<b>At 31 July 2019</b>	<b>(12,613)</b>	<b>(4,395)</b>

### Summary

Income & expenditure account	12,416	8,929
Pensions reserve	(12,613)	(4,395)
<b>At 31 July 2019</b>	<b>(197)</b>	<b>4,533</b>

	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
<b>Revaluation Reserve</b>		
At 1 August 2018	35,953	27,682
Revaluation	-	10,347
Transfer to income & expenditure account in respect of Depreciation on revalued assets (include element re PFI capital reserve)	(972)	(784)
Disposal of properties	(1,050)	(42)
Impairment of properties	-	(1,250)
<b>At 31 July 2019</b>	<b>33,931</b>	<b>35,953</b>

## 20 Analysis of changes in cash and cash equivalents

	At 1 August 2018 £000	Cash Flows £000	Other Changes £000	At 31 July 2019 £000
Cash	1,723	982	-	2,705
Finance lease/hire purchase contracts	-	-	-	-
<b>Total</b>	<b>1,723</b>	<b>982</b>	<b>-</b>	<b>2,705</b>

## 21 Pensions and similar obligations

The College's employees belong to two principal pension schemes, the Scottish Teachers Superannuation Scheme (STSS) and the Strathclyde Pension Fund Scheme (SPF).

The total pension costs for the period were:

	Year to 31 July 2019 £000	Year to 31 July 2018 £000
STSS: contributions paid	2,208	2,139
SPF: Contributions paid	1,881	1,884
FRS 102 charge to the Income & Expenditure Account	2,658	1,720
<b>Total pension cost (Note 7)</b>	<b>6,747</b>	<b>5,743</b>

### Scottish Teachers' Superannuation Scheme (STSS)

The last audited full actuarial and funding valuation was carried out at 31 March 2016. The results of this valuation were rolled forward to give an overall scheme liability of £36.7 billion at 31 March 2019.

Ayrshire College is unable to identify separately its share of the scheme's underlying assets and liabilities. However, as the scheme is unfunded, there can be no surplus or shortfall. Pension contribution rates will be set by the scheme's actuary at a level to meet the cost of pensions as they accrue.

Ayrshire College has no liability for other employers' obligations to the multi-employer scheme.

### Financial assumptions at 31 March 2019

Rate of return (discount rate) 2.9%

#### Rate of return in excess of:

Earnings increases (1.15)%  
Price increases 0.29%

Employer contributions were payable to the STSS at a rate of 17.2%. Employer rates are reviewed every five years following a scheme valuation from the Government Actuary. The rate of employee's contributions vary dependant on the employee's salary.

## Strathclyde Pension Fund (SPF)

The SPF is a funded defined-benefit scheme, with the assets held in separate trustee-administered funds. The total contribution by the employer made for the year ended 31 July 2019 was £1,881,000.

Under the requirements of Financial Reporting Standard 102 (FRS102), the College is required to disclose information on its share of assets and liabilities of the Strathclyde Pension Fund on a market value basis at the end of the accounting period. The figures quoted form the basis of the balance sheet and funding status of Ayrshire College as at 31 July 2019, in respect of its pension obligations under this Local Government Pension Scheme (LGPS). This information is set out below:

### Principal Actuarial Assumptions

	At 31 July 2019	At 31 July 2018
Rate of increase in salaries	3.6%	3.6%
Rate of increase for pensions in payment/inflation	2.4%	2.4%
Discount rate for liabilities	2.1%	2.8%
Expected return on assets	0.0%	0.0%

The current mortality assumptions include allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

		At 31 July 2019	At 31 July 2018
Current pensioners	Males	20.7	21.4
	Females	22.9	23.7
Future pensioners	Males	22.2	23.4
	Females	24.6	25.8

The approximate allocation of scheme assets is as follows:

	At 31 July 2019	At 31 July 2018
Equities	65%	64%
Bonds	24%	22%
Property	10%	11%
Cash	1%	3%
	<b>100%</b>	<b>100%</b>

The assets and the liabilities of the scheme were:

	At 31 July 2019 £000	At 31 July 2018 £000
<b>Total market value of assets</b>	<b>61,122</b>	55,541
Present value of scheme liabilities:		
Funded	(73,145)	(59,363)
Unfunded	(590)	(573)
<b>Surplus/(deficit) in the scheme</b>	<b>(12,613)</b>	(4,395)

## 21 Pensions and similar obligations (continued)

	At 31 July 2019 £000	At 31 July 2018 £000
Employer service cost (net of employee contributions)	3,576	3,604
Past service cost	963	-
<b>Total operating charge</b>	<b>4,539</b>	<b>3,604</b>
	At 31 July 2019 £000	At 31 July 2018 £000
<b>Analysis of pension finance income/(costs)</b>		
Expected return on pension scheme assets	1,572	1,379
Interest on pension liabilities	(1,732)	(1,789)
<b>Pension finance income/(costs)</b>	<b>(160)</b>	<b>(410)</b>
	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
<b>Movements on Pension Scheme Deficit</b>		
Deficit in scheme at 1 August 2018	(4,395)	(14,321)
<b>Movement in year:</b>		
Current service charge	(3,576)	(3,604)
Losses/(gains) on curtailments	(963)	0
Contributions by members	1,850	1,855
Contributions in respect of unfunded benefits	31	29
Past service costs	-	-
Net return on pension assets	(160)	(410)
Actuarial gains/(losses)	(5,400)	12,056
(Deficit) in scheme at 31 July 2019	(12,613)	(4,395)
	<b>Note 19</b>	
<b>Asset and Liability Reconciliation</b>		
<b>Reconciliation of Liabilities</b>		
<b>Liabilities at 1 August 2018</b>	<b>59,936</b>	<b>64,809</b>
Service cost	3,576	3,604
Interest cost	1,732	1,789
Contributions by members	577	580
Actuarial (gain)/loss	8,121	(9,668)
Past service cost/(gain)	963	-
Losses/(gains) on curtailments	-	-
Estimated Unfunded Benefits Paid	(31)	(29)
Estimated Benefits Paid	(1,139)	(1,149)
<b>Liabilities at 31 July 2019</b>	<b>73,735</b>	<b>59,936</b>

<b>21 Pensions and similar obligations (continued)</b>	<b>Year ended 31 July 2019 £000</b>	<b>Year ended 31 July 2018 £000</b>
<b>Reconciliation of Assets</b>		
<b>Assets at 1 August 2018</b>	<b>55,541</b>	50,488
Expected return on assets	1,572	1,379
Contribution by members	577	580
Contribution by employer	1,850	1,855
Contribution in respect of unfunded benefits	31	29
Actuarial (gain)/loss	2,721	2,388
Estimated Unfunded Benefits Paid	(31)	(29)
Estimated Benefits paid	(1,139)	(1,149)
<b>Assets at 31 July 2019</b>	<b>61,122</b>	<b>55,541</b>

#### Amounts for the current and previous accounting periods

Fair value of employer assets	61,122	55,541
Present value of defined benefit obligation	(73,735)	(59,936)
Surplus/(Deficit)	(12,613)	(4,395)

## 22 Related Party Transactions

The Board of Management of Ayrshire College is a body incorporated under the Further and Higher Education (Scotland) Act 1992 and is funded by the Scottish Funding Council (SFC), which is sponsored by the Scottish Government's Enterprise and Lifelong Learning department.

SFC is regarded as a related party. During the year to 31 July 2019 Ayrshire College had various material transactions with SFC and Scottish Government Departments, as well as with other entities for which the Scottish Government is regarded as the sponsor via the Student Awards Agency for Scotland and a number of other Colleges and higher education institutions. In addition, Ayrshire College has had transactions with Skills Development Scotland, Colleges Scotland and a small number of material transactions with other Scottish Government Departments and other central government bodies.

As at 31 July 2019 the College had two outstanding balances due to related parties. These were as follows:

- Due to NHS National Services Scotland - £18,916
- Due to North Ayrshire Council - £21,088

Due to the nature of the College's operations and the composition of its Board of Management (being drawn from local public and private sector organisations), it is inevitable that transactions will take place with organisations in which a member of the College's Board of Management may have an interest. All transactions involving organisations in which a member of the Board of Management may have a material interest are conducted at arm's length and in accordance with normal project and procurement procedures.

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## 22 Related Party Transactions (continued)

In addition to the above named bodies, the College had transactions during the year or worked in partnership with publicly funded or representative bodies in which members of the Board of Management hold or held official positions as noted below:

Board Member	Position	Organisation	Sales/ Purchases by the College in the year
Mr W Mackie	Trustee	Ayrshire College Foundation	Sales: £5,400 Purchases: £270
Mrs H Dunk	Trustee	Princes Trust Foundation	Sales: £nil Purchases: £nil
Mr G James	Logistics Director	NHS National Services Scotland	Sales: £nil Purchases: £64,981
Mr S Keir	Teacher	North Ayrshire Council	Sales: £49,964 Purchases: £157,396

There were no transactions exceeding £5,000 with any other organisations associated with Board Members in 2018-19.

Four members/former members of the Board of Management were employed by the College in the year as follows:

Mrs H Dunk	Principal and Chief Executive
Mrs C Turnbull	Principal and Chief Executive
Mr C Hall	Teaching Staff Member
Ms J Pyper-Macfarland	Service Staff Member

In addition, two members/former members of the Board of Management being Mr J McCrindle and Mr K Simpson were student members, elected by students and remunerated by the Student Association.

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### 23 FE Bursary and Other Student Support Funds

	FE Bursary	FE Hardship	EMA's	Other	Year ended 31 July 2019	Year ended 31 July 2018
	£000	£000	£000	£000	£000	£000
Balance brought forward	114	-	(66)	2	50	788
Allocation received in year	8,553	528	658	135	9,874	9,643
Interest	-	-	-	-	-	-
	<b>8,667</b>	<b>528</b>	<b>592</b>	<b>137</b>	<b>9,924</b>	<b>10,431</b>
Expenditure	(8,455)	(330)	(592)	(122)	(9,499)	(9,652)
Repaid to SAAS re 2017-18	(294)	-	-	(2)	(296)	(21)
Repayable to SFC as clawback	(114)	-	-	-	(114)	(832)
College contribution to funds	-	-	-	-	-	-
Virements	-	-	-	-	-	124
Balance carried forward	<b>(196)</b>	<b>198</b>	<b>-</b>	<b>13</b>	<b>15</b>	<b>50</b>
Represented by:						
Repayable to SFC as clawback	2	-	-	13	15	114
Retained by College for students	-	-	-	-	-	(64)
	<b>2</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>15</b>	<b>50</b>

The above grants are available solely for students, the College acting only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

### 24 FE & HE Childcare Funds

	Year ended 31 July 2019 £000	Year ended 31 July 2018 £000
Balance brought forward: August 2018	(72)	364
Allocation received in period	959	942
	<b>887</b>	<b>1,306</b>
Expenditure	(863)	(890)
Repayable to SFC as clawback	72	(364)
Repayable in year	(96)	-
Virements	-	(124)
Balance carried forward	<b>-</b>	<b>(72)</b>
Represented by:		
Net repayable to SFC as clawback	-	(72)
Retained by College for Students	-	-
	<b>-</b>	<b>(72)</b>

Childcare Fund transactions are included within the College Statement of Comprehensive Income in accordance with the Accounts Direction issued by the Scottish Funding Council.

## 25 Commitments under Operating Leases

As at 31 July 2019 the College had annual commitments under non-cancellable operating leases as set out below:

	<b>Year ended 31 July 2019 £000</b>	Year ended 31 July 2018 £000
Expiry within 1 year	<b>3</b>	166
Expiry within 2 to 5 years	-	291
<b>Total</b>	<b>3</b>	457

## 26 Capital Commitments

	<b>Year ended 31 July 2019 £000</b>	Year ended 31 July 2018 £000
<b>Contracted for at 31 July 2019</b>	<b>22</b>	46

The amounts committed at 31 July 2019 and 31 July 2018 relate to contracts in connection with small capital projects.

## 27 Ayrshire College Foundation

The Ayrshire College Foundation was formed on 20 December 2013. The Foundation, an independent Scottish Charity, has as its charitable objectives, the furtherance of the charitable objectives of the College which, broadly, are the advancement of education in Ayrshire.

The College has applied to the Foundation for grant assistance, primarily to assist in the College's capital investment programmes at Ayr and Kilwinning. This is as part of a planned programme of investment in the College's facilities.

In 2018-19 the Foundation agreed grant funding of £670,000 to the College in respect of Capital Works and educational projects.

In 2017-18 the Foundation agreed grant funding of £1,963,000 to the College in respect of Capital Works and educational projects.

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## 28 PFI Contract and Kilwinning Campus

Payments remaining to be made under the PFI contract at 31 July 2019 are as follows:

	Payment for services	Reimbursement of Capital Expenditure	Interest	Total
	£000	£000	£000	£000
Payable in 2019-20	840	1,004	365	2,209
Payable within 2 to 5 years	3,359	4,613	862	8,834
Payable within 6 to 10 years	498	864	48	1,410
<b>Total</b>	<b>4,697</b>	<b>6,481</b>	<b>1,275</b>	<b>12,453</b>

	Year ended 31 July 2019	Year ended 31 July 2018
	£000	£000
Balance at start of year	7,431	8,330
Payments made in the year	(950)	(899)
Balance outstanding at end of the year	<b>6,481</b>	<b>7,431</b>

## 29 NPD Hill Street

Payments remaining to be made under the NPD contract at 31 July 2019 are as follows:

	Payment for services	Reimbursement of Capital Expenditure	Interest	Total
	£000	£000	£000	£000
Payable in 2019-20	1,305	1,280	2,599	5,184
Payable within 2 to 5 years	5,422	5,711	9,607	20,740
Payable within 6 to 10 years	7,874	7,999	10,052	25,925
Payable > 10 years	20,529	29,500	12,192	62,221
<b>Total</b>	<b>35,130</b>	<b>44,490</b>	<b>34,450</b>	<b>114,070</b>

	Year ended 31 July 2019	Year ended 31 July 2018
	£000	£000
Balance at start of year	45,717	46,893
Payments made in the year	(1,227)	(1,176)
Balance outstanding at end of the year	<b>44,490</b>	<b>45,717</b>

### 30 Post Balance Sheet Events

There are no post balance sheet events to report.

### 31 Contingent Liabilities

There are no contingent liabilities at 31 July 2019 (31 July 2018: £ nil).

### 32 Non-Cash Allocation

Following reclassification, colleges received additional non-cash budget to cover depreciation but this additional budget is not recognised under the FE/HE SORP accounting rules. As a result, colleges show a deficit equivalent to net depreciation (where funds are spent on revenue items) in order to meet Government accounting rules and the requirement to spend the entire cash allocation.

	<b>2018-19</b>	<b>2017-18</b>
	<b>£000</b>	<b>£000</b>
Surplus/(deficit) before other gains and losses (FE/HE SORP basis)	(1,352)	(2,553)
Add back: Non-cash allocation for depreciation (net of deferred capital grant)	2,713	2,256
Operating (deficit) on Central Government accounting basis	<b>1,361</b>	<b>(297)</b>

Under the FE/HE SORP, the college recorded an operating deficit of (£1,352,000) for the year ended 31 July 2019. After taking account of the Government noncash budget, the college shows an “adjusted” surplus of £1,361,000 on a Central Government accounting basis.

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**Accounts Direction for Scotland's Colleges and Universities 2018-19**

1. It is the Scottish Funding Council's direction that institutions comply with the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) in preparing their annual report and accounts.
2. A new SORP ("the 2019 SORP") was issued in October 2018 and this must be adopted for accounting periods beginning on or after 1 January 2019 and thereafter. Early adoption is permitted as described in Section 27 ('Transition to the 2019 SORP') of the 2019 SORP.
3. Institutions must comply with the accounts direction in the preparation of their annual report and accounts in accordance with the Financial Memorandum with the Scottish Funding Council (SFC) or the Regional Strategic Body (RSB) (for assigned colleges).
4. Incorporated colleges and Glasgow Colleges' Regional Board are also required to comply with the Government Financial Reporting Manual 2018-19 (FReM) where applicable.
5. Incorporated colleges and Glasgow Colleges' Regional Board are reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2019.
6. The annual report and accounts should be signed by the chief executive officer / Executive Director and by the chair, or one other member of the governing body.
7. Incorporated colleges and Glasgow Colleges' Regional Board should reproduce this Direction as an appendix to the annual report and accounts.

Scottish Funding Council  
5 July 2019

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# Annual Audit Report

to the Board of Management and the  
Auditor General for Scotland

Ayrshire College

Year ended 31 July 2019

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*This report has been prepared in accordance with our responsibilities as appointed auditors as set out in Audit Scotland's Code of Audit Practice. Reports and letters prepared by the auditor and addressed to the College are prepared for the sole use of Ayrshire College and we take no responsibility to any member or officer in their individual capacity or to any third party.*

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Mazars LLP  
100 Queen Street  
Glasgow  
G1 3DN

The Audit Committee  
Ayrshire College  
Kilmarnock Campus  
Hill Street  
Kilmarnock  
KA1 3HY

26 November 2019

Dear Members

**Annual Audit Report – Year ended 31 July 2019**

We are pleased to present our Annual Audit Report for the year ended 31 July 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 11 June 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

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

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0738 724 2052.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Lucy Nutley'.

Lucy Nutley  
Mazars LLP

Mazars LLP – 100 Queen Street, Glasgow, G1 3DN  
Tel: 0141 227 2400 – [www.mazars.co.uk](http://www.mazars.co.uk)

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861.  
VAT number: 839 8356 73

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# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

This Annual Audit Report sets out the findings from our audit of Ayrshire College ('the College') for the year ended 31 July 2019, and forms the basis for discussion at the Audit Committee meeting on 26 November 2019.

Our responsibilities are defined by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice ('the Code') issued by Audit Scotland. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

### Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements.

### Opinion on regularity

We anticipate issuing an unqualified regularity opinion, meaning that in our opinion, in all material respects the expenditure and income recognised in the financial statements have been applied for the purposes intended .

### Opinion on other requirements

We anticipate issuing an unqualified opinion on the matters prescribed by the Auditor General for Scotland. Namely that the remuneration and staff report, performance report and governance statement have been properly prepared in accordance with the relevant legislation

### Wider scope work

We anticipate concluding as follows against each of the four wider scope dimensions:

- The College has effective arrangements, including budgetary control, that help the Board Members scrutinise finances;
- The College has adequate financial planning arrangements in place. However, we consider that the College's ability to remain financially sustainable over their five year financial plan, without significant additional funding or cost cutting, remains a significant risk;
- The College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board; and
- The College has an effective performance management framework in place that supports progress towards the achievement of value for money.

Our proposed audit and regularity opinion is included in the draft audit report in Appendix B.

## Misstatements and internal control recommendations

We have not made any internal control recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit Committee in a follow-up letter.

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# 1. EXECUTIVE SUMMARY (CONTINUED)

## Status of our audit work

We have substantially completed our work on the financial statements and wider scope work for the year ended 31 July 2019. At the time of preparing this report the following matters remain outstanding:

Audit area	Description of outstanding matters
Annual report and financial statements	Completed draft annual report and financial statements were received following completion of fieldwork, therefore our full review process is still underway. The annual report and financial statements are subject to review until point of signing.  Supporting documentation has been requested for disclosures made within annual report.

## Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in June 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

## Adding value through the audit

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

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# 1. EXECUTIVE SUMMARY (CONTINUED)

## Materiality

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

We set materiality at the planning stage of the audit at £1,042,000 using a benchmark (2%) of Total Revenues. Our final assessment of materiality, based on the final financial statements and qualitative factors is £1,056,000, using the same benchmark.

Threshold	Initial threshold £'000	Final threshold £'000
Overall materiality	1,042	1,056
Performance materiality	834	845
Trivial threshold for errors to be reported to the Audit Committee	31	32

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

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

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

## Performance Materiality

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

## Misstatements

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

## 2. AUDIT OF THE FINANCIAL STATEMENTS

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

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 12 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

### Significant risks and key areas of management judgement

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

#### Management override of controls

#### Description of the risk

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

#### How we addressed this risk

We addressed this risk through performing audit work over:

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

#### Audit conclusion

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

## 2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

### Revenue recognition

#### Description of the risk

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

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

---

#### How we addressed this risk

We addressed this risk through performing audit work over

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

---

#### Audit conclusion

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

---

## 2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

### Expenditure recognition

#### Description of the risk

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

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

---

#### How our audit addressed this risk

We have undertaken a range of substantive procedures including:

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

---

#### Audit conclusion

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

---

## 2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

### Area of focus

Enhanced risks can arise from significant events occurring in relation to the period under review. As part of our planning procedures we considered whether any significant events had occurred in relation to the period under review that would represent an enhanced risk that required additional focus during the audit.

#### Voluntary Severance Scheme

#### Description of the risk

The SFC has agreed to provide the College with strategic funding in 2018/19 for a voluntary severance scheme, as part of the College's Transition Plan.

#### How our audit addressed this risk

We have considered the procedures in place in relation to the operation of the voluntary severance scheme:

- the severance pay amounts and how these have been calculated
- the communication of the voluntary severance scheme to those affected
- whether the funding received to fund the voluntary severance scheme has been utilised in accordance with the grant conditions; and
- the accounting treatment of payments and disclosures made in the financial statements.

#### Audit conclusion

Our audit work provided satisfactory assurance in respect of the valuation, accounting treatment and disclosure of the voluntary severance scheme. We have no matters to report.

## 2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

### Key Areas of Management Judgement

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

Valuation of Pension Liabilities	Description of area of focus
	<p>The College makes contributions to two pension schemes – the Scottish Teachers Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). While both are defined benefit schemes, it is not possible to identify the College's share of the underlying assets and liabilities in the STSS and it is therefore accounted for as a defined contribution scheme. The College's share of the SPF's underlying assets and liabilities is identifiable and is recognised in the accounts.</p> <p>Given the scale of the liability recognised, a misstatement in the reported position could be material to the financial statements.</p>

---

### How we have addressed this area of management judgement

We have addressed the risk by:

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

---

### Audit conclusion

Nationally, in all Local Government Pension Scheme (LGPS) valuations for accounting purposes, during 2018/19 two matters have been identified:

- The impact of Guaranteed Minimum Pension (GMP) equalisation may not be fully included (GMP concerns the minimum pension which an occupational pension scheme has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. The amount is said to be 'broadly equivalent' to the amount the member would have received had they not been contracted out.); and
- The impact of a legal case held during the year (known as the McCloud case), concerning potential age discrimination in relation to transition provisions introduced as part of pension reform measures may not be fully included.

Mazars actuaries have reviewed the assumptions used by SPF's actuaries in 2018/19. They have confirmed the inclusion of GMP equalisation and McCloud in the actuarial assumptions.

Our audit work has provided satisfactory assurance over pension valuations. We have no matters to report.

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## 2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

### Valuation of Land and Buildings

#### Description of area of focus

The College holds land and buildings with a net book value of £113m as at 31 July 2018.

In line with the requirements of the Government Financial Reporting Manual, the College has adopted a formal revaluation policy of an external valuation every five years, with a desktop, interim valuation performed during the five year period. As the full valuation was performed as at 31 July 2018, no revaluation is planned in the current year.

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

---

#### How our audit addressed this area of management judgement

We have performed a range of substantive procedures including:

- Review of management's assessment as to whether the value still reflects the prior year valuation;
- Review of the reconciliation between the College's asset register and general ledger; and
- Consider the College's impairment review process for land and buildings

---

#### Audit conclusion

Our audit work provided satisfactory assurance in respect of the valuation of land and buildings at the reporting date. We have no matters to report.

---

## 2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

### Qualitative aspects of the entity's accounting practices

We have reviewed the College's accounting policies and disclosures and concluded they comply with the requirements of the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education and the Government Financial Reporting Manual 2017/18, appropriately tailored to the College's circumstances.

Draft financial statements were received from the College on 21 October 2019 at the start of audit fieldwork. The draft annual report was received during fieldwork on 29 October 2019. Both draft financial statements and draft annual report were of an adequate quality.

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

### Significant matters discussed with management

No significant matters arose during the course of the audit.

### Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management and staff.

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### 3. SUMMARY OF MISSTATEMENTS

#### Unadjusted misstatements

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

#### Disclosure amendments

A number of disclosure amendments were discussed and agreed with management, including:

- Performance report disclosures in line with SFC guidance
- Remuneration and Staff report data

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## 4. WIDER SCOPE

### Our approach to wider scope work

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

- financial sustainability;
- financial management;
- governance and transparency; and
- value for money.

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

In 2018/19 we have also considered the following risk areas as they relate to the College:

- EU withdrawal
- Changing landscape of public financial management
- Dependency on key suppliers
- Openness and transparency

We do not consider that any of the above additional risk areas constitute a significant risk for the College at this point, but will continue to monitor.

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## 4. WIDER SCOPE FINANCIAL MANAGEMENT

### Dimension

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

### Our conclusion

**Ayrshire College has effective arrangements, including budgetary control, that help Board Members scrutinise finances.**

### Financial performance

#### FE/HE SORP position

	2018/19 £'000	2017/18 £'000
Operating income	53,952	49,598
Staff costs	(34,833)	(32,905)
Operating expenditure	(20,471)	(19,011)
<b>Operating Deficit for the year (FE/HE SORP basis)</b>	<b>(1,352)</b>	<b>(2,318)</b>

Staff cost increases are primarily driven by the FRS 102 pension cost actuarial adjustment. The above table shows the financial performance of the College for 2018/19 and 2017/18 under the FE/HE SORP. Despite a deficit being shown over both years:

- The College achieved its financial targets and spending was in line with the plan; and
- The student credit target was exceeded confirming the level of funding in the financial statements.

#### Adjusted operating position

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

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## 4. WIDER SCOPE FINANCIAL MANAGEMENT (CONTINUED)

	2018/19 £'000	2017/18 £'000
<b>(Deficit) before other gains and losses</b>	(1,352)	(2,553)
<b>Add back:</b>		
- Depreciation (net of deferred capital grant release)	2,713	2,256
- Exceptional non-restructuring costs	-	1,250
- Non-cash pension adjustment	2,510	2,090
- Retention of sales proceeds to fund PFI	1,050	-
- Release of provision	(332)	-
<b>Deduct:</b>		
- Non government capital grants from ACF	(618)	(1,881)
- Loan repayments	(2,268)	(2,170)
- Early Retirees	(91)	(95)
<b>Adjusted operating surplus/(deficit)</b>	<b>1,703</b>	<b>(1,008)</b>

The Accounts Direction issued by the SFC for 2018/19 required Colleges to submit the adjusted operating position calculation with draft accounts to the SFC for review before the accounts are signed off. This is in progress by the College at the time of writing.

The table above indicates that once the non cash and other applicable adjustments are made, the College has achieved a surplus in the year. In the prior year large impairments to the value of Holehouse Road had been recorded reflecting the value likely to be obtained (and retained) by the College following the land sale. This impacted the deficit result in prior year and the proceeds were received in 2018/19 impacting the surplus above.

### Impact of Depreciation Budget

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

	2018/19 £'000	2017/18 £'000
Operating Deficit for the year (FE/HE SORP basis)	(1,352)	(2,553)
Add: Depreciation budget for government funded assets (net of deferred capital grant) for academic year	2,713	2,256
Operating Surplus/(Deficit) on Central Government accounting basis	1,361	(297)

The table above shows a surplus, when the impact of the depreciation budget is taken as the only adjusting factor to the financial position. The operating position table at the top of the page reflects further adjustments that show an operating surplus. The College is currently considered to be operating sustainably within its funding allocation. The overall position has been improved following retention of £1m in receipts in 2018/19 from the sale of Holehouse Road.

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## 4. WIDER SCOPE FINANCIAL MANAGEMENT (CONTINUED)

### Budgetary process

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

We noted that budget reports accurately predicted the financial position and were produced on a timely basis and considered by the appropriate committee. The Business, Resources and Infrastructure Committee considers the management accounting pack regularly, reporting to the Board of Management. Minutes of the meetings document the level of challenge to the financial performance.

### Internal controls

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

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

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

### Prevention and detection of fraud and irregularity

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

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

### National Fraud Initiative

The College participated in the 2018/19 National Fraud Initiative (NFI) exercise. A number of matches were identified and fully investigated by the College. No significant findings or issues arose from NFI during the 2018/19 audit process.

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## 4. WIDER SCOPE FINANCIAL SUSTAINABILITY

### Dimension

Financial sustainability extends the going concern assumption from the financial statements, looking forward two to five years, reviewing and assessing arrangements for financial planning and affordable and sustainable service delivery in this timescale.

### Our conclusion

**Ayrshire College has adequate financial planning arrangements in place, including budgetary control, that help the Board members scrutinise finances. However, we consider that the College's ability to remain financially sustainable over their five year financial plan, without significant additional funding or cost cutting, remains a significant risk.**

### Identified significant risks to our wider scope work

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

#### Financial Sustainability

#### Description of the risk

The College had previously identified a specific risk over the funding of the Kilwinning campus PFI contractual payments. The Kilwinning campus PFI has a revenue cost of approximately £1.4m per annum, which unlike the NPD model, is unsupported by specific funding. The College engaged in discussions with the SFC and submitted a detailed Financial Sustainability Plan to obtain additional funding in 2019/20 and 2020/21. The rationale of the plan is to reduce operational costs to enable the affordability of the contractual PFI payments from core funding.

As the Financial Sustainability Plan is still in its infancy we consider there still remains a risk to the College achieving financial sustainability. This is reflected in the College's 2019 FFR.

#### How we addressed the risk

We have addressed the risk by reviewing:

- The forecast financial position in the 5 year financial plans submitted to SFC
- The financial and resource implications of any voluntary severance scheme proposed to be run by the College;
- The College's achievement of requirements set by the SFC on receipt of funding;
- The alternative plans considered by the College to ensure a balanced budget is achieved;
- The financial reporting arrangements in place at the College.

#### Wider scope conclusion

Subsequent to the College obtaining funding from the SFC following submission of their Financial Sustainability Plan, a Financial Sustainability Plan was initiated in 2018/19 which mainly consisted of a voluntary severance scheme as the College restructured its organisational structure. Additional strategic funding of £700,000 has been committed by the SFC for 2019/20 and 2020/21 to support the College. The College will require to continue to make further efficiencies over the forthcoming years in line with its budget, however the College and its Board show an awareness of the financial challenges and associated risks that it faces.

Whilst the Financial Sustainability Plan is still in its infancy, the financial forecasting performed by the College indicates that the funding gap previously identified has been significantly reduced. The five year forecast prepared by the College, however, continues to highlight a future funding gap with projections that the College will exhaust its cash resources during 2022/23. No immediate action is being taken by the College in addition to the efficiencies included in the Financial Sustainability Plan. The College await further funding announcements from the SFC for the later years in the plan. We consider that without additional action by the College and / or additional funding from the SFC, there is a risk that the College will not remain financially sustainable in the five year forecasting period.

## 4. WIDER SCOPE FINANCIAL SUSTAINABILITY (CONTINUED)

### Financial Planning

The College prepares a 5 year budget and forecast which is scrutinised by the Business, Resources & Infrastructure Committee (BRIC) and approved by the Board. The plan includes assumptions about inflation in the short and medium term and highlights other financial stability risks. The College is very clear on the risks to financial sustainability it faces and the uncertainty of funding over the medium and long term associated with the funding support impacts of national bargaining and funding PFI payments at the Kilwinning Campus.

A summary of the College's five-year forecast is included in the table below. This is based on the FFR submitted to the SFC as the College does not use different assumptions for its reporting to Board.

	Forecast 2019/20 £'000	Forecast 2020/21 £'000	Forecast 2021/22 £'000	Forecast 2022/23 £'000	Forecast 2023/24 £'000
Total Income	50,451	50,787	50,194	49,286	49,395
Staff costs	33,879	34,688	34,267	34,960	35,567
Total other expenditure	13,605	13,636	13,847	14,060	14,278
<b>Operating surplus/(deficit) before other gains and losses</b>	<b>2,783</b>	<b>2,463</b>	<b>2,080</b>	<b>266</b>	<b>(450)</b>
Operating position adjustment (e.g non cash and exceptional items)	(2,695)	(2,790)	(2,705)	(2,657)	(2,494)
<b>Adjusted operating surplus /(deficit)</b>	<b>88</b>	<b>(327)</b>	<b>(624)</b>	<b>(2,391)</b>	<b>(2,944)</b>

The forecast model indicates the additional funding provided by SFC and the efficiencies the College can achieve through its Business Transformation Plan should result in an operating surplus being achieved until 2023/24, however the adjusted operating position reflects a deficit from 2020/21 onwards.

A cashflow projection was prepared by the College in conjunction with the forecast

	Forecast 2019/20 £'000	Forecast 2020/21 £'000	Forecast 2021/22 £'000	Forecast 2022/23 £'000	Forecast 2023/24 £'000
Opening cash balance	1,430	1,839	1,871	1,462	(826)
Net Cash Movement	409	32	(410)	(2,288)	(3,069)
<b>Closing cash balance</b>	<b>1,839</b>	<b>1,871</b>	<b>1,462</b>	<b>(826)</b>	<b>(3,895)</b>

The cashflow forecast indicates that the College will exhaust its cash funds during 2022/23. This is considered to be impacted by a proposed change in the funding model by SFC for years 2022/23 onwards which would lead to a reduction in credits and associated funding for the College of 3,884 credits and £(1,016,279) in funding. This is the largest contributory factor to the reductions in forecast from 2021/22 to 2022/23. The College anticipates it will address this through dialogue with the SFC during Outcome Agreement process.

## 4. WIDER SCOPE

### FINANCIAL SUSTAINABILITY (CONTINUED)

The forecast prepared includes budgeted efficiency savings until 2021/22 within the impact of the Financial Sustainability Plan and as such the funding gap identified in the prior year of £11.89m is significantly reduced. No further immediate action is being considered by the College for 2020/21 in addition to the current planned efficiencies being sought and included in the current forecast.

Whilst we consider this to be appropriate given the full known impact of current efficiency savings and voluntary severance are yet to be realised and the uncertainties surrounding the impact of the future funding model on the College, until such time as either additional funding is made known to be available than is currently able to be forecast or the College is able to identify and implement additional efficiencies than those being budgeted we would consider there to be sufficient concerns over the financial sustainability of the College.

#### **Asset Management and Estates Strategy**

The College has developed an Infrastructure Strategy for 2017 – 2020. The key aims of this strategy are to provide efficient flexible fit for purpose estate across all campuses with industry standard equipment and an innovative, secure ICT infrastructure.

#### National estates survey

Gardiner & Theobald were appointed by the Scottish Funding Council in January 2017 to provide a summary of the conditions of the estates within the Scottish Further Education sector, being the first independent review of the college estate in Scotland for 10 years. Across Scotland the estimated net total backlog of maintenance and renewals cost is £163 million excluding contingencies, any related operational and management costs of the colleges, professional fees, VAT, optimism bias and inflation allowance. When taking these items into account, the resulting total gross estimated backlog is £363 million. 10% of these costs were defined as urgent, requiring action within the next year, with the majority of the costs requiring action within 3-5 years.

The Scottish Funding Council is working with the Scottish Government and Scottish Futures Trust to produce a framework for college sector estate development to manage competing demands for estate development.

The survey showed an estimate of £4.7 million of costs over the 5 year period from 2017-18 to 2022-23 for the Ayrshire College estate, with £1.8m being identified as urgent. The most significant urgent costs identified relate to Dam Park Campus in Ayr. This is in line with the Infrastructure Strategy for the College with the work being completed in this area in 2017/18 and 2018/19.

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## 4. WIDER SCOPE

### GOVERNANCE AND TRANSPARENCY

#### Dimension

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

#### Our conclusion

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

#### Governance arrangements

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

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

During 2018/19, the Board consisted of 18 members, 9 female (including the Principal) and 9 male. The Board continues to maintain a gender balance that meets with the objective of the Gender Representation on Public Boards (Scotland) Bill which was introduced by the Scottish Parliament in June 2017 with an implementation date of 2022.

The committees comprise of, and are chaired by Board members. The Principal is a member of the key committees with the exception of the Audit Committee. In addition, the Chair of the Board is also not permitted to be a member of the Audit Committee. Appropriate College officers attend committees and present reports as required.

#### Governance Statement

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

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

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

#### Internal audit

An effective internal audit service is an important element of any organisation's governance arrangements. Internal audit provide the College with independent assurance on internal control and corporate governance processes. The internal audit function at the College is provided by BDO. Internal audit have attended Audit Committees throughout the year and have produced 4 reports to support the overall Head of Internal Audit Opinion.

#### Transparency

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

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## 4. WIDER SCOPE VALUE FOR MONEY

### Dimension

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

### Our conclusion

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

### Performance management

The College delivered its Regional Outcome Agreement (ROA) target credits, with improvements in student attainment and attendance. There is close monitoring of the delivery of the ROA, financial performance reports provide sufficient information to allow members to understand performance. Budget monitoring information provides a detailed analysis of variances allowing budget objectives to be achieved. Through delivery of the 2018/19 budget there is clear evidence that the College understands cost drivers and is in control of costs.

### Regularity

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

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

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

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## 5. OUR FEES

### Fees for work as the College's appointed auditor

We reported our proposed fees for the delivery of our work in our Audit Strategy Memorandum, presented to the Audit Committee in May 2019. Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	Proposed fee 2018/19	Final fee 2018/19
Auditor remuneration	£29,780	£29,780
Pooled costs	£1,570	£1,570
Contribution to Audit Scotland costs	£1,650	£1,650
<b>Total Fee</b>	<b>£33,000</b>	<b>£33,000</b>

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

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# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

Dear Sirs

### LETTER OF REPRESENTATION

We confirm to the best of our knowledge and belief the following representations given to you in connection with your audit of the college's accounts for the period ended 31 July 2019.

We acknowledge as members of the Board of Management our responsibility for ensuring:

- a) the financial statements are free of material misstatements including omissions;
- b) that the financial statements give a true and fair view of the state of affairs of the College as at 31st July 2019;
- c) all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the College have been properly reflected and recorded in the accounting records;
- d) all other records and related information, including minutes of all management meetings, have been made available to you;
- e) the accounting policies used are detailed in the financial statements and are consistent with those adopted in the previous financial statements and are in accordance with the Accounts Direction issued by the Scottish Funding Council (SFC) under the terms of the Further and Higher Education (Scotland) Act 1992; and
- f) compliance with the terms and conditions of the Financial Memorandum issued to the Board of Management by the SFC.

BDO LLP act as Internal Auditors to the College. All reports issued to the College and our responses to them have been made available to you.

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud. There have been no irregularities (or allegations of irregularities) involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.

The College has no liabilities or contingent liabilities other than those disclosed in the accounts.

All claims in connection with litigation that have been, or are expected to be, received have been properly accrued for in the financial statements.

There have been no events since the balance sheet date that require disclosure or which would materially affect the amounts in the accounts, other than those already disclosed or included in the accounts. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

The College has had at no time during the year any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for the Board of Management nor to guarantee or provide security for such matters.

We confirm that we have disclosed to you all related party transactions relevant to the College and that we are not aware of any further related party matters that require disclosure in order to comply with the requirements of charities legislation, the Statement of Recommended Practice for Further and Higher Education accounts or accounting standards.

The College has not contracted for any capital expenditure other than as disclosed in the accounts.

The College has satisfactory title to all assets and there are no liens or encumbrances on the College's assets, except for those that are disclosed in the financial statements.

We have disclosed to you, all known irregularities, including fraud, involving existing management or employees of the College, of any breaches or possible breaches of statute, regulations, contracts, agreements or College's Constitution and Articles of Government which might result in the College suffering significant penalties or other loss.

We confirm that we are not aware of any possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the College conducts its business.

We confirm that, in our opinion, the College is a going concern on the grounds that current and future sources of funding or support will be more than adequate for the College's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the College's ability to continue as a going concern need to be made in the financial statements.

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## DRAFT MANAGEMENT REPRESENTATION LETTER

We confirm that no unadjusted misstatements have been brought to our attention.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

..... Chair of Board

..... Principal

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# APPENDIX B

## DRAFT AUDITOR'S REPORT

### Independent auditor's report to the members of the Board of Management of Ayrshire College, the Auditor General for Scotland and the Scottish Parliament

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

#### Report on the audit of the financial statements

##### Opinion on financial statements

We have audited the financial statements in the annual report and accounts of Ayrshire College for the year ended 31 July 2019 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Income and Expenditure, Statement of Changes in Reserves, Balance Sheet, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2019 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

##### Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Auditor General for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Auditor General on 31 May 2016. The period of total uninterrupted appointment is five years. We are independent of the College in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the board. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the college has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Risks of material misstatement

We have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

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## DRAFT AUDITOR'S REPORT

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Other information in the annual report and accounts

The Board of Management is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the remuneration and staff report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with our audit of the financial statements in accordance with ISAs (UK), our responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Report on regularity of expenditure and income

#### Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

#### Responsibilities for regularity

The Board of Management is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

### Report on other requirements

#### Opinions on other matters prescribed by the Auditor General for Scotland

In our opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; and
- The information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

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## DRAFT AUDITOR'S REPORT

### Matters on which we are required to report by exception

We are required by The Charities Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Lucy Nutley,  
For and on behalf of Mazars LLP

100 Queen Street  
Glasgow  
G1 3DN

December 2019

Lucy Nutley is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000

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# APPENDIX C INDEPENDENCE

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

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

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# DRAFT MANAGEMENT REPRESENTATION LETTER

(Paper 4)

Dear Sirs

## LETTER OF REPRESENTATION

We confirm to the best of our knowledge and belief the following representations given to you in connection with your audit of the college's accounts for the period ended 31 July 2019.

We acknowledge as members of the Board of Management our responsibility for ensuring:

- a) the financial statements are free of material misstatements including omissions;
- b) that the financial statements give a true and fair view of the state of affairs of the College as at 31st July 2019;
- c) all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the College have been properly reflected and recorded in the accounting records;
- d) all other records and related information, including minutes of all management meetings, have been made available to you;
- e) the accounting policies used are detailed in the financial statements and are consistent with those adopted in the previous financial statements and are in accordance with the Accounts Direction issued by the Scottish Funding Council (SFC) under the terms of the Further and Higher Education (Scotland) Act 1992; and
- f) compliance with the terms and conditions of the Financial Memorandum issued to the Board of Management by the SFC.

BDO act as Internal Auditors to the College. All reports issued to the College and our responses to them have been made available to you.

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud. There have been no irregularities (or allegations of irregularities) involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.

The College has no liabilities or contingent liabilities other than those disclosed in the accounts.

All claims in connection with litigation that have been, or are expected to be, received have been properly accrued for in the financial statements.

There have been no events since the balance sheet date that require disclosure or which would materially affect the amounts in the accounts, other than those already disclosed or included in the accounts. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

The College has had at no time during the year any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for the Board of Management nor to guarantee or provide security for such matters.

We confirm that we have disclosed to you all related party transactions relevant to the College and that we are not aware of any further related party matters that require disclosure in order to comply with the requirements of charities legislation, the Statement of Recommended Practice for Further and Higher Education accounts or accounting standards.

The College has not contracted for any capital expenditure other than as disclosed in the accounts.

The College has satisfactory title to all assets and there are no liens or encumbrances on the College's assets, except for those that are disclosed in the financial statements.

We have disclosed to you, all known irregularities, including fraud, involving existing management or employees of the College, of any breaches or possible breaches of statute, regulations, contracts, agreements or College's Constitution and Articles of Government which might result in the College suffering significant penalties or other loss.

We confirm that we are not aware of any possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the College conducts its business.

We confirm that, in our opinion, the College is a going concern on the grounds that current and future sources of funding or support will be more than adequate for the College's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the College's ability to continue as a going concern need to be made in the financial statements.

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# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

We confirm that no unadjusted misstatements have been brought to our attention.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

..... Chair of Board

..... Principal

Ayrshire College # 4840  
11/20/2019 13:22:14



# AYRSHIRE COLLEGE

INTERNAL AUDIT ANNUAL REPORT 2018-19

November 2019



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Ayrshire College # 484082  
11/20/2019 13:22:14

## Restrictions of use

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

# EXECUTIVE SUMMARY

## Background

Our role as internal auditors is to provide an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Our approach, as set out in BDO's Internal Audit Manual, is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

## Responsibilities

BDO LLP has been appointed as internal auditors to Ayrshire College to provide the Board of Management (via the Audit Committee), the Principal and other Executive and senior management with assurance on the adequacy of the following arrangements:

- Risk Management;
- Corporate Governance;
- Value for money; and
- Internal Control.

Responsibility for these arrangements remains fully with management, who should recognise that internal audit can only provide 'reasonable assurance' and cannot provide any guarantee against material errors, loss or fraud. Our role at Ayrshire College is also aimed at helping management to improve risk management, governance and internal control, so reducing the effects of any significant risks facing the organisation.

Our risk evaluations and tests are designed to ensure that controls are sound both in design and effective in operation. Our conclusions are based on evidence obtained during the course of our audit work, verification tests and samples selected from the year's transactions to date. However, our conclusions should not be taken to mean that all transactions have been properly authorised and processed or that all elements of systems have been tested.

Ayrshire College #184082  
11/20/2019 15:12:14

# EXECUTIVE SUMMARY

## Audit Approach

We have reviewed the control policies and procedures employed by Ayrshire College to manage risks in business areas identified by management set out in the 2018-19 Annual Internal Audit Plan approved by the Audit Committee. This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the organisation.

Our approach complies with best professional practice, in particular, Public Sector Internal Audit Standards and the Chartered Institute of Internal Auditors' Position Statement on Risk Based Internal Auditing.

We discharge our role, as detailed within the audit planning documents agreed with Ayrshire College's management for each review, by:

- Considering the risks that have been identified by management as being associated with the processes under review
- Reviewing the written policies and procedures and holding discussions with management to identify process controls
- Evaluating the risk management activities and controls established by management to address the risks it is seeking to manage
- Performing walkthrough tests to determine whether the expected risk management activities and controls are in place
- Performing compliance tests (where appropriate) to determine whether the risk management activities and controls are operating as expected.

The assurance statement provided on page 8 of this report is based on historical information and the projection of any information or conclusions contained in our opinion to any future periods is subject to the risk that changes may alter its validity.

## Coverage

During 2018-19 BDO LLP has reviewed and evaluated **Ayrshire College's** processes in the following areas:

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>• Risk Management</li><li>• Financial Controls</li><li>• IT Security</li></ul> | <ul style="list-style-type: none"><li>• Estates and Infrastructure</li><li>• VFC Return</li><li>• Application, recruitment, enrolment and induction of students</li><li>• Follow Up</li></ul> |
|--|---|

# EXECUTIVE SUMMARY

## Recommendations

To assist management in addressing our findings, we categorise our recommendations according to their level or priority. The recommendations made in the seven completed reviews totalled 19.

## Summary of Recommendations (SEE APPENDIX I)



Total number of recommendations: 19

## Reporting mechanisms and practices

Our initial draft reports are sent to the key officer responsible for the area under review in order to gather management responses. In every instance there is an opportunity to discuss the draft report in detail. Therefore, any issues or concerns can be discussed with management before finalisation of the reports. Our method of operating with the Audit Committee is to agree reports with management and then present and discuss the matters arising at the Audit Committee meetings.

## Management action on our recommendations

Management have been conscientious in review and commenting on our reports. For the reports which have been finalised, management have responded positively. The responses indicate that appropriate steps to implement our recommendations are being put in place.



# EXECUTIVE SUMMARY

## Relationship with external audit

All our final reports are available to the external auditors through the Audit Committee papers and are available on request. Our files are also available to External Audit should they wish to review working papers in order to place reliance on the work of Internal Audit.

## Follow up

During the year we undertook independent exercises to assess the progress made by Ayrshire College in implementing internal audit recommendations made in previous years.

Implementation of recommendations is a key determinant of our annual opinion. If recommendations are not implemented on a timely basis then weaknesses in control and governance frameworks will remain in place. Furthermore, an unwillingness or inability to implement recommendations reflects poorly on management's commitment to the maintenance of a robust control environment. Within Ayrshire College we found a good level of commitment and effort in clearing as many outstanding recommendations as possible from previous audit reports.

We followed up 12 recommendations from 2018-19. We note that two of these recommendations had been fully implemented and 10 were not due for implementation.




On that basis we can take assurance that management's resolve to implement previously agreed recommendations is sound.

## Summary of work performed

Details of the six internal audit reviews and the follow up review have been reported to the Audit Committee throughout the year and have been discussed at length with consideration and scrutiny of management responses and timescales proposed. The only report that produced a 'Limited' Assurance rating was the Estates and Infrastructure Review as we found further work was required to address high and medium risk findings in relation to Project Management. We have since confirmed that the agreed actions for all of the findings had been addressed and implemented by September 2019.

For the purpose of this annual report, we set out in the following pages our summary of recommendations and assessment of the design and effectiveness of the risk assurance for each of the audit areas reviewed.

# REVIEW OF 2018-19 WORK

Reports Issued	Overall Report Conclusions - see Appendix 1				
				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
Application, recruitment, induction & enrolment of students	0	2	4	Moderate	Moderate

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# ANNUAL STATEMENT OF ASSURANCE

## Report by BDO LLP to Ayrshire College

As the internal auditors of Ayrshire College we are required to provide the Board of Management, via the Audit Committee, and other management with a view on the adequacy and effectiveness of Ayrshire College's risk management, governance and internal control processes.

In giving our view it should be noted that assurance can never be absolute. The internal audit service provides Ayrshire College with reasonable assurance that there are no major weaknesses in the internal control system for the areas reviewed in 2018-19. Therefore, the statement of assurance is not a guarantee that all other aspects of the internal control system are adequate and effective. The statement of assurance should confirm that, based on the evidence of the audits conducted, there are no other signs of material weakness in the framework of control.

In assessing the level of assurance to be given, we have taken into account:

- All internal audits undertaken by BDO LLP during 2018-19;
- Any follow-up action taken in respect of audits from previous periods for these audit areas;
- Whether any significant recommendations have not been accepted by management and the consequent risks;
- The effects of any significant changes in the organisation's objectives or systems;
- The requirements of the Public Sector Internal Audit Standards; and
- Any limitations which may have been placed on the scope of internal audit (no restrictions were placed on our work).

## Conclusion

In our opinion, based on the other reviews undertaken during the period, and in the context of materiality, we can conclude that:

- The risk management activities and controls in the areas which we examined were found to be suitably designed to achieve the specific risk management, control and governance arrangements.
- Based on our verification reviews and sample testing, the risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable, but not absolute assurance that the related risk management, control, value for money and governance objectives were achieved for the period under review. Management have agreed the related recommendations and have made progress towards implementing these recommendations.

# 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

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# 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




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On average:

- All reports were issued in draft within 10 working days of completion of our fieldwork and a debrief meeting with management.
- Initial responses were received within 10 working days of the draft report being issued.
- Final reports were issued within 1 working day of final 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
<b>Substantial</b> 	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.
<b>Moderate</b> 	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.
<b>Limited</b> 	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.
<b>No</b> 	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	
<b>High</b> 	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.
<b>Medium</b> 	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.
<b>Low</b> 	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.

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# AYRSHIRE COLLEGE

## INTERNAL AUDIT REPORT - FINAL

Follow up review

June 2019

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Auditor:	Gemma Rickman
Dates work performed:	10-12 June 2019
Draft report issued:	14 June 2019
<b>Final report issued:</b>	<b>20 June 2019</b>

DISTRIBUTION LIST	
Michael Breen	Vice Principal - Finance and Skills
James Thomson	Director of Finance and Student Funding
Members of the Audit Committee	

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11/20/2019 13:22:14

## Restrictions of use

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

# EXECUTIVE SUMMARY

## Scope and Work Undertaken

### Background

As part of the provision of continual assurance with regard to internal control arrangements, a review of the degree of implementation of previously agreed Internal Audit recommendations was conducted in June 2019. In accordance with the Internal Audit Annual Plan 2018-19, we have considered the implementation status of all recommendations raised from previous internal audit work which were due to be implemented at the time of this review.

Two recommendations were followed up from the work undertaken during 2018/19. The recommendations relate to two audit areas, as listed below:

- Risk Management 2018/19 (1 recommendation)
- IT Security 2018/19 (1 recommendation)

### Methodology

Ayrshire College's internal audit recommendation progress report was reviewed to determine the degree of implementation achieved. Where the responsible person stated that recommendations had been implemented, evidence was sought, and testing undertaken where relevant, to verify continued compliance.

### Acknowledgement

We appreciate the assistance provided by the staff involved in the review and would like to thank them for their help and on-going co-operation (see Appendix I for a list of staff interviewed during the follow-up review).

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# EXECUTIVE SUMMARY

## Status of recommendations as at June 2019

The summary below provides a simple overview of the status of each recommendation. The 2 recommendations due to be implemented have been categorised as fully implemented. There are 10 recommendations not yet due for implementation. On this basis, we conclude that Ayrshire College has made excellent progress in implementing the recommendations made and we can provide assurance that management's resolve to implement previously agreed Internal Audit recommendations is sound.

Audit	Status at June 2019					Total
	Fully implemented	Partially implemented	Not implemented	Superseded	Not due for implementation	
Risk Management 2018/19	1	-	-	-	-	1
IT Security 2018/19	1	-	-	-	4	5
Financial Planning 2018/19	-	-	-	-	-	-
Infrastructure Projects 2018/19	-	-	-	-	6	6
SFC Return 2018/19	-	-	-	-	-	-
<b>TOTAL</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10</b>	<b>12</b>

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# APPENDIX I - STAFF INTERVIEWED




NAME	JOB TITLE
James Thomson	Director of Finance and Student Funding

BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and co-operation.

Ayrshire College # 484082  
11/20/2019 13:22:14

# APPENDIX II - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
<b>Substantial</b> 	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.
<b>Moderate</b> 	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.
<b>Limited</b> 	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.
<b>No</b> 	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	
<b>High</b> 	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.
<b>Medium</b> 	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.
<b>Low</b> 	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.

# APPENDIX III - TERMS OF REFERENCE

## BACKGROUND

As part of the 2018-19 Internal Audit plan for Ayrshire College, it was agreed that internal audit will follow up on previously agreed recommendations made in Internal Audit reports in previous years, and where relevant during the current year.

## PURPOSE OF REVIEW

The aim is to provide assurance to management and the Audit Committee that previous internal audit recommendations have been implemented effectively and within targeted timescales.

## KEY RISKS

The key risk associated with the area under review is:

- Action is not taken to implement recommendations resulting in weaknesses in control and subsequent loss, fraud or error.

## SCOPE OF REVIEW

We will review management's action taken to implement internal audit recommendations. This will involve the review of recommendations made in each of the 2018-19 internal audit reports which are due for implementation.

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# AYRSHIRE COLLEGE

## INTERNAL AUDIT REPORT - FINAL

APPLICATION, RECRUITMENT, INDUCTION & ENROLMENT OF STUDENTS  
AUGUST 2019

### LEVEL OF ASSURANCE

Design

Operational Effectiveness

Moderate

Moderate





# AYRSHIRE COLLEGE, APPLICATION, RECRUITMENT, INDUCTION & ENROLMENT OF STUDENTS

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## DISTRIBUTION

Anne Campbell	Vice Principal-Curriculum
Richard Simson	Head of BISS
Doreen Wales	Acting Director of Student Services
James Thomson	Director of Finance & Student Funding
Audit Committee	

## REPORT STATUS LIST


Auditors:	Chloe Ridley
Dates work performed:	10 June - 26 June 2019
Draft report issued:	9 July 2019
Draft report reissued:	13 August 2019
Final report issued:	27 August 2019


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# AYRSHIRE COLLEGE, APPLICATION, RECRUITMENT, INDUCTION & ENROLMENT OF STUDENTS




## EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)

Design  Generally, a sound system of internal control designed to achieve system objectives with some exceptions.

Effectiveness  Evidence of non-compliance with some controls that may put some of the system objectives at risk.

## SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I)

High		0
Medium		2
Low		4

TOTAL NUMBER OF RECOMMENDATIONS: 6

## BACKGROUND:

As part of the 2018-19 Internal Audit Plan, it was agreed that we would carry out a review of the College's application, recruitment, induction and enrolment processes.

Ayrshire College deals with on average 24,000 admissions covering full-time, part-time evening, day-release, business and school link programmes during the average academic year.

Applicants complete an online application via the College's Website. The College's Student Support Team and Inclusive Learning Team can provide assistance to complete the application form. Applicants create an account and can apply for up to three courses. Applicants' information is held on Unit-e. Applicants who meet the entry criteria will be asked to interview.

Curriculum staff record the outcome of the interview via the standardised interview outcome form on Unit-e. Unit-e allows the interviewer to see the interview history of the applicant, previous applications and history of any courses previously studied at the College.

A student cannot be progressed on Unit-e unless the interview outcome form is completed. The Business Intelligence and Information Systems (BIIS) Team monitors whether Curriculum Staff have completed the Interview Outcome Form.

The applicant will receive a letter from the College regarding the outcome of the interview and any further action required by the applicant. Where an applicant was unsuccessful, the College's Student Support Team will contact the student to discuss their next options.

# AYRSHIRE COLLEGE, APPLICATION, RECRUITMENT, INDUCTION & ENROLMENT OF STUDENTS

The Student Information Team manages the admissions process centrally. This allows the correct support to be delivered consistently to the applicant and produces accurate reports on application numbers.

Continuing students also need to complete an online application, as they are allocated a place subject to conditions such as successfully achieving their current course. Student Information refers the application to the relevant curriculum staff to decide whether the student can continue. This provides an opportunity for the student to update their personal details.

The 2018/19 Student Survey identified that 98.71% of students agreed or strongly agreed that they found it easy to apply for their course.

The College has recently improved its systems to allow self-financing students to pay for their courses online, previously they would need to call the College and pay.

Courses in the Curriculum Development Plan (CDP) may be swapped and changed if recruitment is slower or better than expected. Decisions can be made within a curriculum department or between curriculum departments to remove or add courses dependent upon recruitment activity.

To allow this there is a live version of the CDP, held on a computer-based module, which was developed internally by the BIIS team. Any changes to courses are processed through the module and require approval by the relevant Curriculum Director. Any changes must result in no change to the overall credit target figure, which was agreed in the Baseline CDP.

BIIS provides activity reports on a weekly basis to Executive Leadership Team (ELT) and Senior Leadership Team (SLT). It shows the application status of all courses, including how many applicants are at interview stage, have been offered a conditional offer and that have accepted.

It is common for courses to have a couple of students withdraw prior to the census date. The early withdrawal rate varies from course to course. Curriculum management are responsible for enrolling enough students to ensure the target student numbers are achieved after the census date. Historical early withdrawal rates are reviewed and analysed to give an indication. It is an area where professional judgement is required.

ELT holds meetings every two weeks and discuss recruitment activity. Each Curriculum Director also holds meetings with their Heads and Curriculum Managers to discuss recruitment activity.

Marketing at the College is both general and for specific courses. Where there is a new course or a course that has historically struggled to recruit there will be focused advertising of these courses. Marketing attends directorate meetings to discuss advertising options, considering the impact and cost.

In May 2019, an analysis of Ayrshire College's recruitment over the last five years was presented to the ELT/SLT. It was reported that FE full-time applications have decreased by 22% over the last five years. HE full-time applications have decreased by 14%; however, the drop was most significant between 2017/18 and 2018/19 where the drop was 13%

This is despite SFC reporting in 2017-18 that nationally the number of enrolments to full-time FE courses has remained relatively stable over the last ten years, and the number of enrolments to full-time HE courses increased by 25.4%.

The decrease in applications for full-time and part-time courses is in line with expectations. A key output of the Enterprise and Strategic Board is embedding a culture of lifelong learning at all stages of an individual's career. The Strategic Board comprises of Scotland's enterprise and skills agencies: Scottish Enterprise, Highlands and Islands Enterprise, Skills

# AYRSHIRE COLLEGE, APPLICATION, RECRUITMENT, INDUCTION & ENROLMENT OF STUDENTS

Development Scotland and the Scottish Funding Council. Scotland education's approach to learning is developing, with a focus on work-based learning, as opposed to full-time and part-time courses. This will enable Scotland to better respond to the current and future skills needs of industry and learners.

Ayrshire College's applicants under 16 years old have declined by 24% over the last 5 years, applicants aged 16-19 have declined by 23%, applicants aged 20-24 have declined by 24% and applicants over 25 have declined by 3%. This awareness and evaluation of recruitment activity will ensure the College continues to offer the right courses.

Ayrshire has some of the highest areas of deprivation. A total of 13 per cent of the Ayrshire's datazones are among the 10% most deprived nationally, with more than half of these located within North Ayrshire. Additionally despite unemployment decreasing in recent years, East and North Ayrshire continue to experience amongst the highest rates of youth and all-age unemployment in Scotland. These factors should be considered when analysing the below tables.

SFC reported in 2017-18 that whilst the total number of enrolments to colleges has reduced nationally by 37.3% since 2008-09, enrolments for students aged 25 and over decreased by 45.5% compared to a 29.4% for younger students (24 and under). However, when measured as FTEs, students aged 25 and over only reduced by 1.4% in comparison to a reduction of 0.9% for those aged under 25

The College's student recruitment process is effectively embedded within the College's self-evaluation process. Self-evaluation reports are completed, by each curriculum area, on an annual basis as part of the quality cycle. Data reports are issued to the Quality Team, SLT and Curriculum teams via QlikView the College's business intelligence application. All team members contribute to the process as they schedule quality/self-evaluation days during June and August.

Members of the Student Association and the Student President are invited to induction planning meetings and discussions, to get their input for the induction process and ensure it is customer focused.

Students are met on their first day by curriculum staff and will be supported by the Student Services Team throughout their time in the College. The Inclusive Learning Team will be there to support any students who have stated in their application that they require help.

New students are emailed prior to induction and asked if they would like to upload a photo on to Ayrshire College's Cards Online matriculation software. Their photo is checked by Learning Resource & Teaching Administration Assistant to ensure it is reasonable i.e. no filters, face not covered. If the student's photo has been accepted, students can pick their student card up on Induction Day. If the photo was not accepted, students can send another photo or have their photo taken on induction day.

Students will have their photo taken on induction day via webcam on a laptop and will have their student cards created on induction day. Of the 827 students who uploaded a photo before induction in 2018, 604 of these photos were accepted.

The College has a number of workshops in place to support students throughout the induction process. A First Steps Presentation is a mandatory workshop for all new students and takes place within the first two weeks.

There are induction workshops with each of the College's Liaison Officers: Police Liaison Officer, Mental Health Officer and the Alcohol and Drug Liaison Officer. Students are asked to complete evaluation forms after these workshops.

There is a New Student Induction Programme available on Moodle, which all students can access once they have access to the College's systems. It contains information and videos on

# AYRSHIRE COLLEGE, APPLICATION, RECRUITMENT, INDUCTION & ENROLMENT OF STUDENTS

support student services offer, online communications guidance, mandatory and optional workshops available, useful contacts and student services induction quiz.

The 2018/19 Student Survey found that 92.45% of students agreed or strongly agreed that they are happy with the initial online induction on Moodle. This compares with 90.35% in 2017/18, and which is an improvement and is greater than the informally set benchmark of 90%.

## SCOPE AND APPROACH:

Our review assessed whether:

- The student application process is clearly defined, consistent and customer focused.
- Recruitment processes are efficient, consistent and appropriate to the subject area and support the conversion of interest into appropriate offers
- Recruitment processes support the achievement of College activity targets
- The student recruitment process is embedded well within the College and staff in different areas work together effectively and efficiently to support overall student recruitment.
- Induction processes support the student in their transition to College
- The College enrolment processes are clearly defined and allow students to be enrolled timeously

Our approach was to conduct interviews to establish the controls in operation for each of our areas of audit work. We sought documentary evidence that these controls are designed as described. We sought to gain evidence of the satisfactory operation of the controls to verify the effectiveness of the control through use of a range of tools and techniques.

A de-brief meeting was undertaken before completing the review on-site to discuss findings and initial recommendations.

## GOOD PRACTICE:

A number of areas of good practice were noted during the review, including, but not limited to:

- Care and Early Years applicants are required to complete a written task prior to the one to one interview. The written task includes answering a series of questions including why they chose the course, skills they can bring and their strengths and weaknesses. This is used as a starting point for discussion at the interview. This gives applicants time to think about their answers.
- Managers, heads, SLT and ELT have access to Qlikview, a piece of software that allows them to view current and historical application data for courses. This allows instant access to application data, which can be viewed in a variety of ways. The supporting tool allows management to monitor and measure performance against the Regional Outcome Agreement;
- Students are asked to provide photos for matriculation prior to their induction day, this reduces the administrative activities taking place on Induction day;

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- Members of the Student Association and the Student President are invited to induction planning meetings and discussions, to get their input for the induction process and ensure it is customer focused; and
- The new Student Induction Programme, available on Moodle, allows students to access induction material when they want and view as much as they want.

## KEY FINDINGS:

Notwithstanding the good practice noted above, our audit found the following areas in which improvements could be made:

- **Staff Interview Training:** There is no formal training in place for staff who perform application interviews. Additionally there was no evidence of informal training taking place;
- **KPI Monitoring:** There are no KPIs in place to monitor the quality of student experience, particularly for students who were not accepted;
- **Application Requirements:** The College operates a combined application and enrolment process, whereby information obtained at the application stage allows an applicant to enrol on a course if the application is successful. Some of the information obtained at the application stage may not be necessary for application, but only for enrolment. This however has not been made clear to applicants nor how their data will be retained and used by the College;
- **Induction Feedback:** There is a student survey in place that asks specific questions about the admissions process, specifically whether students are happy with the initial online induction on moodle. However, there are opportunities for the College to improve obtaining feedback obtained from students about the wider induction process;
- **Enrolment:** Induction day is information heavy for students and resource intensive for staff. On a student's induction day, they are given their pre-populated enrolment form. The student checks the form to confirm the details are correct. They will give the enrolment form to a Student Records Administrator who will update Unit-e where necessary. This is an onerous task for staff and an administrative burden for students. A planned communications strategy over the summer period could negate some of this information being imparted at induction; and
- **Student Interviews:** It is current practice to interview all applicants if they have met the initial assessment criteria, regardless of whether academic and experience requirements have been fully met. The College should only perform interviews for specific departments, courses, or if applicants are bordering on achievement of course criteria.

## CONCLUSION:

We are able to provide moderate assurance over the design and operational effectiveness of the controls in place relating to the College's application, recruitment, induction and enrolment processes. In this report, we have made some recommendations that will serve to improve the process further.

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OUR TESTING DID NOT IDENTIFY ANY CONCERNS SURROUNDING THE CONTROLS IN PLACE TO MITIGATE THE FOLLOWING RISKS:


- ✓ The student recruitment process may not be embedded within the College effectively and efficiently to support overall student recruitment

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# AYRSHIRE COLLEGE, APPLICATION, RECRUITMENT, INDUCTION & ENROLMENT OF STUDENTS

## DETAILED FINDINGS

**RISK:** the student application process may not be clearly defined, consistent and customer focused

Ref	Sig.	Finding
1		<p><b>Staff Training</b></p> <p>Student interview training for staff assists in ensuring a consistent interview process across students and courses. It can educate staff on best practice approaches for example asking questions around sensitive subjects such as student support.</p> <p>There is no formal training in place for staff who perform application interviews. Additionally, there was no evidence of informal training taking place.</p> <p>There is a risk the interview process is not consistent across students and courses.</p>

## RECOMMENDATION:

We recommend interview training is mandatory for all staff who hold student application interviews. Refresher training should take place on a regular basis.

Attendance at the training should be documented.

## MANAGEMENT RESPONSE:

The College will implement student interview training and refresher training for all relevant staff. Attendance will be documented and monitored.

Responsible Officer: Vice-Principal - Curriculum


Implementation Date: 31 January 2020

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# AYRSHIRE COLLEGE, APPLICATION, RECRUITMENT, INDUCTION & ENROLMENT OF STUDENTS

**RISK:** Recruitment processes may not support the achievement of College activity targets

Ref	Sig.	Finding
2		<p><b>KPI Monitoring</b></p> <p>Goal 3 in Ayrshire College's Strategic Plan 2017-2020 is to be a high-performing, sustainable college recognised for excellence and integrity.</p> <p>To support the achievement of this the College has a range of student experience KPIs, which are reported against on a regular basis. These include KPIs, which to evaluate the student admissions process.</p> <p>The College does not have however, KPIs focussed on unsuccessful applicants and why applicants were unsuccessful. This information could help the College enhance its student recruitment processes.</p> <p>There is a risk that the College is not able to identify and learn from the experiences of unsuccessful applicants to improve and maintain its student recruitment processes.</p>

## RECOMMENDATION:

We recommend the College identify a set of KPIs to monitor and report on the quality of experience for unsuccessful applicants.

## MANAGEMENT RESPONSE:

Agreed. These KPIs will be agreed with the College ELT. Once agreed, performance against the KPIS will be reported on following August and January intakes.


Responsible Officer: Vice-Principal - Curriculum

Implementation Date: 31 January 2020

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# AYRSHIRE COLLEGE, APPLICATION, RECRUITMENT, INDUCTION & ENROLMENT OF STUDENTS

**RISK:** the student application process may not be clearly defined, consistent and customer focused

Ref	Sig.	Finding
3		<p><b>Application Requirements</b></p> <p>The student application process should be efficient and compliant with data protection regulations. GDPR requires the College's privacy notices for student recruitment and enrolment to state clearly how student's data is used.</p> <p>The information requirements for an application are the same regardless of whether the course is full-time, part-time or an evening class. For evening classes and commercial courses, there may be information requirements that are not necessary.</p> <p>We note that the College operates a combined application and enrolment process, whereby information obtained at the application stage allows an applicant to enrol on a course if the application is successful. However, some of the information obtained at the application stage may not be necessary for application, but only for enrolment. It is not clear in the College's privacy notices for student recruitment and enrolment how student data will be used</p> <p>There is a risk the College cannot demonstrate compliance with GDPR requirements.</p>

## RECOMMENDATION:

We recommend an evaluation of the application process be performed to consider whether information requirements can be reduced for commercial and evening courses to reduce the time it takes to complete an online application.

We recommend the College publish its data privacy notices for student recruitment and application processes on the dedicated page on the College's website.

## MANAGEMENT RESPONSE:

The College will evaluate the information requirements for applicants to evening and commercial courses.

A data privacy notice for student recruitment and applications is currently being prepared with support from the College's Data Protection Officer. This will be published on the College's website.


Responsible Officer: Head of BIIS

Implementation Date: 30 September 2019

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# AYRSHIRE COLLEGE, APPLICATION, RECRUITMENT, INDUCTION & ENROLMENT OF STUDENTS

**RISK:** induction processes may not support students in their transition to college

Ref	Sig.	Finding
4		<p><b>Induction Feedback</b> It is good practice for the College to seek feedback from students about the entire induction process.</p> <p>There is an annual student survey in place that asks questions about the admissions process. The survey specifically looks at whether students are happy with the initial online induction on moodle. The feedback collected by the College on the induction process found that 92.45% of students agree or strongly agree that they are happy with the induction module. . However, there is no feedback from students about the wider induction process. Surveys questions may be interpreted differently by respondents and restrict the feedback given. .</p> <p>There is a risk the College's induction feedback arrangements are not capturing all useful or relevant student views and experiences.</p>

## RECOMMENDATION:

We recommend feedback is sought from students on the wider induction process to supplement information from the student survey.

## MANAGEMENT RESPONSE:

The College will enhance its current arrangements to capture feedback on the wider induction process. This will include seeking feedback once students have settled on to their courses so they can reflect on where additional information or guidance should have been provided through the induction process.

Responsible Officer: Vice-Principal - Curriculum

Implementation Date: 20 December 2019

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# AYRSHIRE COLLEGE, APPLICATION, RECRUITMENT, INDUCTION & ENROLMENT OF STUDENTS

**RISK:** the college enrolment processes may not be clearly defined and allow students to be enrolled timeously

Ref	Sig.	Finding
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5



## Enrolment

The induction day should focus supporting students in their transition to College and be an effective use of their time. Induction day is information heavy for students and resource intensive for staff. Regular updates to students prior to induction will reduce this burden.

A planned communications strategy for engagement with students over the summer period could negate some of the information being imparted at induction or reduce the onus on students to verify data. For example, students could be asked to confirm their details and enrol electronically prior to induction week. Other colleges have strategies for engaging with students over the summer period and have found this has reduced the administrative burden on staff and students in induction week.

On a student's induction day, they are given their pre-populated enrolment form. The student checks the form to confirm the details are correct. They will give the enrolment form to a Student Records Administrator who will update Unit-e where necessary. This is an onerous task for staff and an administrative burden for students.

The College has no strategy in place for sharing information with students over the summer period.

There is a risk that only engaging with students during the induction week limits the impact of information shared with students and is not the most effective use of staff time.

## RECOMMENDATION:

We recommend students are given the option to update their details and enrol electronically from a pre-determined date prior to induction day.

We recommend the College develop a planned strategy for sharing information with students over the summer period.

## MANAGEMENT RESPONSE:

The College will develop a planned strategy for sharing information with students over the summer. The College will use the experiences of other colleges within the sector to reflect areas of identified good practice and to avoid potential pitfalls. Recruitment and enrolment leads will also work with ICT colleagues and the College's Student Association to consider the feasibility of students updating their details and enrolling electronically, prior to induction day.

Responsible Officer: Vice-Principal - Curriculum

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# AYRSHIRE COLLEGE, APPLICATION, RECRUITMENT, INDUCTION & ENROLMENT OF STUDENTS

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Implementation 30 November 2019.


Date:

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# AYRSHIRE COLLEGE, APPLICATION, RECRUITMENT, INDUCTION & ENROLMENT OF STUDENTS

**RISK:** recruitment processes may not be efficient, consistent and appropriate to the subject area and support the conversion of interest into appropriate offers

Ref	Sig.	Finding
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6		<p><b>Student Interviews</b></p> <p>It is Ayrshire College Policy to interview all applicants if they have met the initial assessment criteria, regardless of whether academic and experience requirements have been fully met.</p>
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Interviewing applicants takes up a lot of curriculum staff's time and resources. Through discussion with curriculum staff, it was identified that interviews are required for some courses, but may not be required for others. No evidence of evaluation of whether it is necessary to interview all applicants was found.

There is a risk the recruitment processes may not be efficient.

## RECOMMENDATION:

We recommend the College review the requirement to interview all applicants. Consideration should be made for whether it is only necessary to perform interviews for specific departments, courses, or if applicants are bordering on achievement of course criteria.

The decision on whether to interview or not should be evaluated and reviewed on a regular basis.

## MANAGEMENT RESPONSE:

The College will update the criteria for interviewing applicants. The criteria will reflect the varying requirements of courses and departments.

Responsible Officer: Vice-Principal - Curriculum

Implementation Date: 30 November 2019.

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# AYRSHIRE COLLEGE, APPLICATION, RECRUITMENT, INDUCTION & ENROLMENT OF STUDENTS

## STAFF INTERVIEWED





BDO LLP APPRECIATES THE TIME PROVIDED BY ALL THE INDIVIDUALS INVOLVED IN THIS REVIEW AND WOULD LIKE TO THANK THEM FOR THEIR ASSISTANCE AND COOPERATION.

Anne Campbell	Vice Principal-Curriculum
Richard Simson	Head of BIIS
Doreen Wales	Acting Director of Student Services
Julie Maxwell	Curriculum Director
Gavin Murray	Curriculum Director
Hilary Reid	Learning Resource Officer



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# AYRSHIRE COLLEGE, APPLICATION, RECRUITMENT, INDUCTION & ENROLMENT OF STUDENTS

## APPENDIX I - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
<b>Substantial</b> 	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.
<b>Moderate</b> 	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.
<b>Limited</b> 	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.
<b>No</b> 	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

<b>High</b> 	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.
<b>Medium</b> 	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.



# AYRSHIRE COLLEGE, APPLICATION, RECRUITMENT, INDUCTION & ENROLMENT OF STUDENTS

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.

## APPENDIX II - TERMS OF REFERENCE

### PURPOSE OF REVIEW:

The purpose of this review is to provide assurance to management and the Audit Committee regarding the adequacy and effectiveness of Ayrshire College's application, recruitment, induction and enrolment processes and to recommend improvements to those arrangements as necessary.

### KEY RISKS:

- The student application process may not be clearly defined, consistent and customer focused
- Recruitment processes may not be efficient, consistent and appropriate to the subject area and support the conversion of interest into appropriate offers
- Recruitment processes may not support the achievement of College activity targets
- The student recruitment process may not be embedded within the College effectively and efficiently to support overall student recruitment
- Induction processes may not support students in their transition to College
- The College enrolment processes may not be clearly defined and allow students to be enrolled timeously

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# AYRSHIRE COLLEGE

## INTERNAL AUDIT REPORT - FINAL

CORPORATE GOVERNANCE  
OCTOBER 2019

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Substantial	Substantial



# AYRSHIRE COLLEGE, CORPORATE GOVERNANCE

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## DISTRIBUTION

James Thomson	Director of Finance and Student Funding
Brendan Ferguson	Secretary to the Board of Management
Members of the Audit Committee	

## REPORT STATUS LIST


Auditors:	Gemma Rickman
Dates work performed:	26-30 August 2019
Draft report issued:	11 September 2019
Final report issued:	1 October 2019


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# AYRSHIRE COLLEGE, CORPORATE GOVERNANCE


## EXECUTIVE SUMMARY


LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)



Design  There is a sound system of internal control designed to achieve system objectives.

Effectiveness  The controls that are in place are being consistently applied.

## SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I)

High 

Medium 

Low  

TOTAL NUMBER OF RECOMMENDATIONS: 4

## BACKGROUND:

As part of the 2019-20 Internal Audit Plan, it was agreed that Internal Audit would review elements of the corporate governance arrangements in place within Ayrshire College. The purpose of our review is to provide the Audit Committee with a level of assurance around the current corporate governance arrangements, and provide the Board of Management and Leadership Teams with advice and recommendations for improving the arrangements further.

Ayrshire College's Board of Management holds ultimate responsibility for the College's affairs, and is responsible for overseeing all matters related to the function and strategic direction of the College. The Board must consist of between 15 and 18 members (including the Chair (who is appointed by Scottish Ministers), the Principal (ex-officio), 2 elected student members, one elected curriculum staff member and one elected non-curriculum staff member). In addition, the Board must appoint up to 12 non-executive members from the general public. In the last year, nine new Board members have been appointed, including the College Principal. The quorum is 50%, and the Board should normally meet on a quarterly basis, although a minimum of three meetings per year must be held. The Board has established the following Committees:

- The Audit Committee, which is responsible for overseeing all matters related to the College's External and Internal Audit. Specific duties include appointing Internal Auditors and agreeing an Internal and External Audit Plan. The Committee must consist of a minimum of four non-executive Board members (the College Principal and Chair of the Board cannot be members). The quorum is 50%, and the Committee should normally meet on a quarterly basis, although a minimum of three meetings per year must be held.

# AYRSHIRE COLLEGE, CORPORATE GOVERNANCE

- The Business, Resources and Infrastructure Committee, has a wide range of duties which include overseeing all strategies in relation to financial planning including the annual Financial Statements, the College budget and monitoring in-year expenditure against budget, overseeing all strategies relating to the ongoing organisational development of the College and its human resources and overseeing major estates projects to ensure that projects are developed within the parameters specified and approved by the Board. The Committee must consist of a minimum of six members, and the quorum for meetings is 50%. Meetings should normally be held on a quarterly basis, although a minimum of three meetings per year is required.
- The Learning and Teaching Committee, which is responsible for overseeing all matters related to the strategic planning and delivery of Learning and Teaching within the College. The Committee must consist of a minimum of six members from the Board, which should include at least one staff representative and at least one student representative. The quorum is 50%, and the Board will normally meet on a quarterly basis, however a minimum of three meetings per year is required.
- The Search and Nominations Committee, which is responsible for the recruitment and recommending the appointment of new Board members, and considering and making recommendations on the re-appointment of existing members of the Board who have reached the end of their period of appointment. The Committee is also responsible for overseeing the search, recruitment and recommendations in regard to the appointment of the Principal. The quorum is 50%, and the Committee will meet as and when required.
- The Performance Review and Remunerations Committee, which is responsible for overseeing all matters related to the review of performance and remuneration of the Executive Leadership Team. The quorum is 50%, and meetings are normally held annually as a minimum, but will meet as and when required.

The Committee structure changed to reflect the above Committees in 2017/18, on a trial basis. Previously, there were seven Committees in addition to the Board, however the newly formed Business, Resources and Infrastructure Committee replaced the previous Estates and New Campus Development Committee, Finance Committee and Human Resources and Organisational Wellbeing Committee, therefore reducing the number of Committees to five. The Board took the decision to reduce the number of Committees due to overlaps in duties, and a cross over in non-executive membership. Management have advised that the Board provided final approval of the Committee structure at its meeting in June 2019.

The Board and Committees each have a Terms of Reference in place which clearly details responsibilities, membership and quorum requirements, and the frequency of meetings. Annual Work Plans have also been developed for the Board and Committees (with the exception of the Performance Review and Remunerations Committee and the Search and Nominations Committee who meet annually, and as required, respectively), which gives an indication of the papers to be presented at each meeting throughout the year. The Work Plans are reviewed by the Board at the beginning of each academic year.

Minutes, papers and agendas are publically available on the College's website, however information considered to be confidential for commercial reasons or because it contains information that is bound by data protection legislation is not uploaded onto the website.

Upon appointment, all Board members are provided with an induction. A Board induction programme has been created, which is issued to all new Board members. As a part of the induction process, Board members receive their iPads and complete training on Admincontrol (Admincontrol is the portal used to issue and store meeting papers). Thereafter, presentations are given from the Chair, various members of staff and also

# AYRSHIRE COLLEGE, CORPORATE GOVERNANCE

external parties. For example, in the November 2018 induction new members were provided with information on Governance and the role of a Board member; information on the College, for example, key stakeholders, the business cycle and the academic cycle; board responsibilities, standing orders and the code of conduct; Terms of Reference for the Board and its Committees; the Board rolling development plan; the strategic plan and the outcome agreement amongst others.

Members receive management information relevant to each Committee's responsibilities outlined in the Terms of Reference. For example, the Audit Committee receives Internal and External Audit reports, and reviews the College's Risk Register on an on-going basis. Papers are issued to members one week in advanced of meetings. Minutes are taken of each meeting and are included for approval by members at the following meeting. For the Committees which meet on a quarterly basis, actions identified at each meeting are now logged within an action tracker. The action tracker allows for the action, owner, and due date to be recorded, along with the status and any supporting comments on progress made.

On an annual basis, individual Board members must complete a Board self-evaluation of effectiveness questionnaire. The questionnaire prompts Board members to rate performance from a scale of 1-5 in response to a range of questions, categorised into the following 10 sections: The Organisation and Business of Meetings; the Conduct of Business, the Content and Quality of Papers; Membership; Stakeholder Information; the Operation of the Board Committees; the Support Provided to the Board; Performance of the Board Chair; Governance and Forward Look (the key issues required to be addressed by the Board for the future).

Responses are then analysed by the Board Secretary, and thereafter reported to the Board at the Board development Day. The analysis details the average total response for each question, and gives the average scores for the previous years for comparison. Commentary is also provided on the answers received, to support any movement in average scores. The skills mix of the Board is considered during the recruitment of Board members, and a skills matrix is maintained which adopts a check list format to confirm the skills held by each member, for example, working with others, strategic thinking, and financial management.

## SCOPE AND APPROACH:

The scope of our review was to assess whether:

- Board and committee terms of reference are clear, comprehensive and do not overlap with those of other committees;
- The roles and responsibilities of the Board and committees defined in the terms of reference are in line with the Financial Memorandum;
- The Board and committees have a tangible, agreed, programme of work that allows them to make an effective and timely contribution and meets their responsibilities;
- Minutes of the Board and committees indicate strong engagement by all members;
- Members are provided with sufficient, timely and high quality management information to effectively discharge their responsibilities;
- The Board regularly assess its own and its committees effectiveness and takes action on areas where required;
- Adequate arrangements for the induction and on-going development of Board members are in place; and

# AYRSHIRE COLLEGE, CORPORATE GOVERNANCE

- There is a clear and defined flow of information between the Strategic Leadership Team and the Board and to ensure that there is awareness across both the Board and the College of key information resulting from Board and committee meetings.

Our approach was to conduct interviews with Board Members and appropriate members of staff to establish the controls in operation for each of our areas of audit work. We then sought documentary evidence to support that these controls are designed as described. We also evaluated the controls to identify whether they adequately address the risks.

## GOOD PRACTICE:

We identified a number of areas of good practice during our review, which have been summarised below:

- The Board and its Committees each have a Terms of Reference in place which clearly details responsibilities, membership and quorum requirements, and the frequency of meetings. The Terms of Reference are clear with no unreasonable overlap.
- Annual work plans have been developed for all Committees (excluding the search and remunerations Committees, who meet as and when required) which details the papers to be presented at each meeting.
- Members are provided with sufficient, high quality management information to enable the effective discharge of responsibilities.
- From our review of minutes, Board and Committees met in accordance with the Terms of Reference, and meetings were quorate.
- Interaction between the Board and its Committees is strong.
- A comprehensive induction process is in place for all new Board members. New members are provided with an induction manual and receive presentations from college staff and external parties, providing information relevant to the College and the role of the Board.

## KEY FINDINGS:

Notwithstanding the areas of good practice detailed above, we have identified opportunities for improvement within the current corporate governance arrangements, which are as follows:

- **Assessment of Committee performance and effectiveness:** At present, the Committees do not perform an annual review which assesses both performance against their remit and their overall effectiveness. We recognise that members individually complete a Board self-evaluation effectiveness questionnaire annually, however there is not an exercise completed that is specific to each Committee.
- **Training and development:** Board member training needs are identified through exercises such as on-to-one appraisals with the Chair. However, there was no record of monitoring or tracking available for 2018-19 to ensure that training is completed and meets the needs of members, or to identify instances where training needs have not been satisfied.
- **Audit Committee meetings with Internal & External Audit:** The Audit Committee Terms of Reference states that the Committee will normally meet with the External and Internal Auditors annually without any members of the Executive Management Team being present. Our review of meeting minutes and agendas for the last year identified that a meeting with the External and Internal Auditors without Management present has not taken place.



# AYRSHIRE COLLEGE, CORPORATE GOVERNANCE

- **Change in the Board and Audit Committee's Terms of Reference:** We note that within the Board and Audit Committee Terms of Reference, and under Section 4, Scheme of Delegation, reference is made to the Finance Committee. This does not reflect the change in committee structure agreed by the Board of Management.

## CONCLUSION:

We are able to provide substantial assurance over the design and operational effectiveness of the corporate governance controls in place at Ayrshire College.

## OUR TESTING DID NOT IDENTIFY ANY CONCERNS SURROUNDING THE CONTROLS IN PLACE TO MITIGATE THE FOLLOWING RISKS:


- ✓ The Board and committees' terms of reference may be unclear, overlapping or leave gaps.
- ✓ The roles and responsibilities of the Board and its committees defined in the terms of reference may not be in line with the Financial Memorandum.
- ✓ The Board and its committees may not have a programme of work in accordance with their terms of reference that allows them to make an effective and timely contribution.
- ✓ Board Members may not be provided with sufficient, high quality management information.
- ✓ Board Members may not be sufficiently assertive in ensuring corrective or improving actions are taken.
- ✓ The Board may not have effectively assessed their performance, training requirements, and/or the balance of skills required within its membership, or may not have taken effective action based on these assessments.
- ✓ There may be inadequate arrangements for induction of Board members, or for continual updating of members on issues which should be brought to their attention.

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# AYRSHIRE COLLEGE, CORPORATE GOVERNANCE

## DETAILED FINDINGS

**RISK: THE BOARD MAY NOT HAVE EFFECTIVELY ASSESSED THEIR PERFORMANCE, TRAINING REQUIREMENTS, AND/OR THE BALANCE OF SKILLS REQUIRED WITHIN ITS MEMBERSHIP, OR MAY NOT HAVE TAKEN EFFECTIVE ACTION BASED ON THESE ASSESSMENTS.**

Ref	Sig.	Finding
1		<p>It is important that the Board and its Committees reflect and report upon the effectiveness of their performance, and their skills and knowledge, on a regular basis.</p> <p>At present, the Committees do not perform an annual review which assesses both performance against their remit and their overall effectiveness. We recognise that members complete a Board self-evaluation effectiveness questionnaire annually, however there is not an exercise completed that is specific to each Committee.</p> <p>There is a risk that Committee effectiveness is not being regularly assessed, and that opportunities to enhance performance may be missed.</p>

## RECOMMENDATION:

We recommend that each Committee collectively performs an annual assessment of performance against their remit and their overall effectiveness, which should be formally reported to the Board. This could also provide a further opportunity to identify any training or developments needs of the Committees.

## MANAGEMENT RESPONSE: AGREED


Responsible Officer: Board Secretary

Implementation Date: June 2020

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# AYRSHIRE COLLEGE, CORPORATE GOVERNANCE

RISK: THE BOARD MAY NOT HAVE EFFECTIVELY ASSESSED THEIR PERFORMANCE, TRAINING REQUIREMENTS, AND/OR THE BALANCE OF SKILLS REQUIRED WITHIN ITS MEMBERSHIP, OR MAY NOT HAVE TAKEN EFFECTIVE ACTION BASED ON THESE ASSESSMENTS.

Ref	Sig.	Finding
2		<p>It is important that, as Board member training and development requirements are identified, the College takes action to ensure that these needs are met.</p> <p>Board member training needs are identified through exercises such as on-to-one appraisals with the Chair. However, there is no monitoring or tracking in place to ensure that training is completed and meets the needs of members, or to identify instances where training needs have not been satisfied.</p> <p>There is a risk that Board members do not complete the necessary training required, and that the College does not retain sufficient evidence to support the completion of training.</p>

## RECOMMENDATION:

We recommend that the Board maintains an individual training log for each Board member. The logs should continuously document the specific training or development needs identified, the training offered and/or arranged, the due date and the completion date. Supporting evidence should also be retained to support the completion of training, for example, attendance registers or training certificates.

## MANAGEMENT RESPONSE: AGREED


Responsible Officer: Board Secretary

Implementation Date: October 2019

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# AYRSHIRE COLLEGE, CORPORATE GOVERNANCE

**RISK: THE BOARD AND ITS COMMITTEES MAY NOT HAVE A PROGRAMME OF WORK IN ACCORDANCE WITH THEIR TERMS OF REFERENCE THAT ALLOWS THEM TO MAKE AN EFFECTIVE AND TIMELY CONTRIBUTION.**

Ref	Sig.	Finding
3		<p>The Audit Committee Terms of Reference states that the Committee will normally meet with the External and Internal Auditors annually without any members of the Executive Management Team being present.</p> <p>Our review of meeting minutes and agendas for the last year identified that a meeting with the External and Internal Auditors without Management present has not taken place.</p> <p>There is a risk that Committee Terms of Reference are not being adhered to.</p>

## RECOMMENDATION:

We recommend that the Audit Committee, in accordance with the Terms of Reference, meets with the External and Internal Auditors without management present on an annual basis. This should be evidenced through meeting agendas and minutes.

## MANAGEMENT RESPONSE: AGREED


Responsible Officer: Board Secretary

Implementation Date: June 2020

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# AYRSHIRE COLLEGE, CORPORATE GOVERNANCE

**RISK: THE BOARD AND COMMITTEES' TERMS OF REFERENCE MAY BE UNCLEAR, OVERLAPPING OR LEAVE GAPS.**

Ref	Sig.	Finding
4		<p>It is expected that Board and Committee Terms of Reference accurately reflect the Committee structures in place.</p> <p>We note that the Board and Audit Committee Terms of Reference do not reflect the change in Committee structure. For example, the Finance Committee is referred to, which is no longer a Standing Committee and has been replaced by the Business, Resources and Infrastructure Committee.</p> <p>There is a risk that the Terms of Reference provide outdated and inaccurate guidance to members.</p>

## RECOMMENDATION:

We recommend that the relevant Terms of Reference documents are updated to reflect the change in Committee structure, and remove reference to collapsed Committees.

**MANAGEMENT RESPONSE: AGREED**

Responsible Officer: Board Secretary

Implementation Date: Completed

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# AYRSHIRE COLLEGE, CORPORATE GOVERNANCE

## STAFF INTERVIEWED





BDO LLP APPRECIATES THE TIME PROVIDED BY ALL THE INDIVIDUALS INVOLVED IN THIS REVIEW AND WOULD LIKE TO THANK THEM FOR THEIR ASSISTANCE AND COOPERATION.

Brendan Ferguson	Secretary to the Board of Management
Yvonne Melvin	Executive Assistant to the Principal and Board of Management
Carol Turnbull	Principal
Michael Breen	Vice Principal – Finance and Skills
Fiona McQueen	Board Member
Margaret Bryan	Board Member
Christopher Hall	Board Member




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# AYRSHIRE COLLEGE, CORPORATE GOVERNANCE

## APPENDIX I - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
<b>Substantial</b> 	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.
<b>Moderate</b> 	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.
<b>Limited</b> 	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.
<b>No</b> 	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

<b>High</b> 	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.
<b>Medium</b> 	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.
<b>Low</b> 	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.

# AYRSHIRE COLLEGE, CORPORATE GOVERNANCE

## APPENDIX II - TERMS OF REFERENCE

### PURPOSE OF REVIEW:

The purpose of this review is to provide the Audit Committee with a level of assurance around the current corporate governance arrangements, and provide the Board of Management and the Strategic and College Leadership Team with advice and recommendations for improving the arrangements further.

We will assess whether the Board's committees have clear and appropriate terms of reference and programmes of work, and whether meetings are well attended and minutes indicate sound engagement. We will also consider whether the committees are receiving sufficient high quality management information to discharge their role. Our review will also cover the arrangements in place to induct Board members and to assess the effectiveness of the Board.

### KEY RISKS:

Based upon the risk assessment undertaken, discussions with the Board Secretary, Board Members, management, and our collective audit knowledge and understanding, the key risks associated with the area under review are:

- The Board and committees' terms of reference may be unclear, overlapping or leave gaps;
- The roles and responsibilities of the Board and its committees defined in the terms of reference may not be in line with the Financial Memorandum;
- The Board and its committees may not have a programme of work in accordance with their terms of reference that allows them to make an effective and timely contribution;
- Board Members may not be provided with sufficient, high quality management information
- Board Members may not be sufficiently assertive in ensuring corrective or improving actions are taken;
- The Board may not have effectively assessed their performance, training requirements, and/or the balance of skills required within its membership, or may not have taken effective action based on these assessments;
- There may be inadequate arrangements for induction of Board members, or for continual updating of members on issues which should be brought to their attention; and

The Board and committees' terms of reference may be unclear, overlapping or leave gaps.

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# AYRSHIRE COLLEGE, CORPORATE GOVERNANCE

## SCOPE OF REVIEW:

The scope of this review will be to assess whether:

- Board and committee terms of reference are clear, comprehensive and do not overlap with those of other committees;
- The roles and responsibilities of the Board and committees defined in the terms of reference are in line with the Financial Memorandum;
- The Board and committees have a tangible, agreed, programme of work that allows them to make an effective and timely contribution and meets their responsibilities;
- Minutes of the Board and committees indicate strong engagement by all members;
- Members are provided with sufficient, timely and high quality management information to effectively discharge their responsibilities;
- The Board regularly assess its own and its committees effectiveness and takes action on areas where required;
- Adequate arrangements for the induction and on-going development of Board members are in place; and
- There is a clear and defined flow of information between the Strategic Leadership Team and the Board and to ensure that there is awareness across both the Board and the College of key information resulting from Board and committee meetings.

However, Internal Audit will bring to the attention of the Board Secretary and Management any points relating to other areas that come to their attention during the course of the audit. We assume for the purposes of estimating the number of days of audit work that there is one control environment, and that we will be providing assurance over controls in this environment. If this is not the case, our estimate of audit days may not be accurate.

## APPROACH:

Our approach will be to conduct interviews, with Board Members and appropriate members of staff to establish the controls in operation for each of our areas of audit work. We will then seek documentary evidence that these controls are designed as described. We will evaluate these controls to identify whether they adequately address the risks.

We will seek to gain evidence of the satisfactory operation of the controls to verify the effectiveness of the control through use of a range of tools and techniques.

During the course of the review we will keep management informed of any issues which arise as a result of our testing.

A de-brief meeting will be undertaken before completing the review on-site to discuss findings and initial recommendations.

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FOR MORE INFORMATION:

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# AYSHIRE COLLEGE

## MANAGEMENT LETTER

FES Return Audit 2018-19

September 2019



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REPORT STATUS	
Auditors:	Tony Barrie
Dates work performed:	9 September 2019 to 13 September 2019
Draft report issued:	24 September 2019
<b>Final report issued:</b>	

DISTRIBUTION LIST	
Richard Simson	Head of Business Intelligence and Information Systems
James Thomson	Director of Finance, Student Funding & Estates
Audit Committee	Members

## Restrictions of use

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

# INTRODUCTION, AUDIT APPROACH AND SCOPE

## Introduction

A review of the College's FES (further education statistical) data return has been carried out in accordance with the 'Credit Guidance: 2017-18 student activity data guidance for colleges' (SFC/GD/17/2018) issued in August 2018 and the audit guidance for colleges (SFC/GD/02/2018) issued on 20 April 2018.

Our report is based on information supplied by college management and staff and the audit approach outlined below.

## Audit Approach and Scope

We assessed the overall control environment by considering whether:

- The student data returns have been compiled in accordance with all relevant guidance;
- Adequate procedures are in place to ensure the accurate collection and recording of the data; and
- The FES return contains no material misstatement.

The purpose of the review was to examine the adequacy of the sub-systems used by the College in relation to the Credit Guidance, the audit guidance and associated guidance to complete the student data returns.

The assessment of the control environment as outlined above was used to determine specific tests and sample sizes.

Our review also sought to address all the risk areas outlined in Annex D of the audit guidance issued on 2 August 2018.

Our fieldwork, which took 5 days to complete, was undertaken by experienced auditors and was reviewed by the Director responsible for the assignment. All personnel have previous experience of delivering internal audit assignments to FE Colleges.

Our test samples were selected from full population data sets and were representative of the area under review e.g. sampling across all key modes of attendance.

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# AUDIT TESTS

## Testing Summary

A summary of the specific tests, together with sample sizes (which were randomly selected), is described below:

- We reviewed a sample of 15 students who had been categorised into Price Group 5 (previously DPG18) and confirmed that the credits claimed for these students were accurate. For 5 of the students on the list the enrolment form did not have the disability section ticked but on further enquiry we established that the Price Group 5 rating had been applied as a result of assessments done by the course tutors once the course had started. For one of the students in the sample, they were eligible to claim for 2 credits but this was not claimed as the course was a January starting course and the student had already started and withdrawn from a qualifying course in September and the credits for this had been claimed, therefore the College was not eligible to claim for the credits associated with this course. It should be noted that no testing was completed in this, the ELS or ESF tests for the presence of a completed PLSP form. This was as a result of discussions with the College that this was no longer a requirement of the SFC.
- We took a sample of 10 infill course students and tested them to ensure that the credits for these courses have been accurately claimed. For all of the criteria tested, the results were found to be satisfactory.
- To gain assurance that ESOL courses are accurately stated and properly coded within the system, we selected a sample of 10 students and confirmed that the credits were properly stated and the course was properly coded. For 3 of the 10 students sampled the courses they enrolled on were community based course and no attendance was confirmed for these. Also, one of the students was enrolled on a course which was assessment only and no attendance was required for it.
- We selected a sample of 10 students with multiple enrolments and agreed the credits as being accurate. This was done to gain assurance that sums for students with multiple enrolments are accurately stated. Out of the sample, 10 of the courses listed did not claim any credits in the FES return. For one of the students who was listed on 2 courses this was because they did not meet the attendance required date before withdrawing from the course so no credits could be claimed. For 7 of the courses listed, no claim for credits were made because the course was not fundable as it was through school attendance and the final course with no credits claimed was due to the student being pre-enrolled but not starting the course.
- A sample of 15 full time students who withdrew from their course was selected in order to confirm that, if they had withdrawn after the required date then the course credits had been claimed properly. The test confirmed that the date of withdrawal on the student documentation was consistent with the system records and confirmed that the appropriate forms had been completed correctly. One exception was noted where the email informing the College of formal withdrawal was not in the agreed format and contents.
- We tested the school programmes and confirmed that credits have been correctly categorised in line with SFC guidance. To do this, we selected a sample of 15 students and reviewed the course listing for school programmes to confirm that they have been correctly categorised. The test also confirmed that students were eligible and that credits had been accurately stated.
- We selected a sample of 5 ECDL students from a total intake of 15 students for the year, and from this, we verified that the credits for this course have been correctly calculated and claimed.
- To gain assurance that credits for open learning students are correctly claimed we selected a sample of 10 open learning students and confirmed that credits for their courses have been correctly claimed. We also confirmed through this test that the criteria for eligibility were being met and that there was sufficient evidence that the student was making progress on the course.
- We sought to gain assurance that there are processes in place to ensure that the attendance criteria is accurately stated and, also, to confirm that student enrolments are properly treated within the college. To validate this we took a sample of 10 courses and, from these, we selected 2 students. We confirmed that the start, end and required dates have been calculated correctly and, for the same sample we confirmed that enrolments check for the exclusion of students who do not meet the 25% rule had been conducted and, for a sample of students included in the return, we established that there is sufficient evidence of attendance after the required date.

# AUDIT TESTS (cont'd)

## Testing Summary

- To gain assurance that credits are accurately claimed for Fee Waiver students, we obtained a list of the College's fee waiver students and for a sample of students we confirmed that a relevant fee waiver form exists for each student (fully completed and properly authorised, that supporting documentation is attached (where applicable) to the fee waiver form, that an enrolment form had been completed for the student to ensure existence and to trace to the attendance register to ensure the student has attended beyond the 25% required date. In addition, we reviewed the list of fee waiver students and obtained the necessary assurance that the students are on eligible courses, e.g. not FT advanced courses etc. and, where an automatic fee waiver is claimed, that the courses/students meet the criteria set by SFC for automatic fee waiver allocation.
- We were able to confirm through testing that courses are correctly classified as full or part time and HE or FE. This was done by selecting a sample of 25 courses and confirming if they were correctly categorised between HE and FE, and FT/PT by using the criteria set out by the SFC.
- We were able to determine that the correct number of credits have been claimed for these courses, by selecting a sample of 15 courses and confirming that the total credits claimed for the course in the year matched to the individual students listed for the course and the credits claimed for each of them.
- We selected a sample of 20 courses and re-performed the required date calculation using the formula provided to us by the College. This test confirmed that the correct required date had been applied to the course for the purpose of claiming the credits attributable to them.
- In order to gain assurance that the correct DPG/superclass group is being used for courses, we selected a sample of 25 courses and agreed that the correct price group and superclass group was being used. The classifications on these were matched to the classifications provided by FES in the FES3 Guidance note. As part of this test we also considered if the College had applied the correct superclass name for the course and found that all of the names were appropriate for the courses selected.
- We conducted a Fee waiver analytical review. This compared the fee waiver figures from the prior years FES return and analysed in the final report. Any significant variations in the numbers were queried with the College and explanations were provided by the Finance or Business Information team.
- A sample of 10 ESF students were selected and, from this, we were able to confirm that credits associated with ESF students had been correctly claimed. Evidence of this was obtained through completion of an ESF participant form and meeting the residential requirements laid out by the SFC.
- We were given sufficient assurance that courses spanning multiple years were accurately stated. We selected a sample of 12 courses; 6 of these started in the year prior to the FES return under review for which any credits applicable to the course should be claimed and the other 6 started in the year under review for which the claim for credits associated with the course are deferred into the following year's claim. In all cases, we found that the credits associated with these courses were being claimed in the correct period.
- We enquired if there were any collaborative course undertaken by the College with any other FE institution and confirmed that the guidelines set out by the SFC had been properly followed for such courses. For Ayrshire College there is only one such arrangement and we were able to confirm that the collaborative arrangement met all of the requirements outlined by the SFC.
- We selected a sample of 10 ELS students and confirmed that the credits had been correctly claimed for students that fall into this category. The credits claimed were checked to the credits associated with the course and other student documentation such as the attendance summary and enrolment form were requested in order to confirm that the student had met all of the requirements for the course to claim the credits that were shown.

# ANALYTICAL REVIEW

## Summary

A brief summary of the analytical review work undertaken is as follows:

- We compared the student numbers per mode of attendance with the prior year, investigating any significant fluctuations with College staff; and
- We obtained the fee waiver figures per category of fee waiver and compared these with the previous year's figures, investigating any significant fluctuations with College staff.

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# ANALYTICAL REVIEW (cont'd)

## Summary

The final 2018/19 FES return submitted to SFC by the College matched the figures we reviewed. The credit target for the year was set at 124,958 and the College delivered to 100.6% of this with a final agreed and submitted total of 125,691. The FES students credits target was set at 871 but the College submitted an agreed claim for 930 which was 6.8% above the target.

	Fundable Student Headcount	
Student Numbers	2018/19	2017/18
Headcount:		
FEFT	5,523	5,839
FEPT	6,661	6,508
	<hr/>	<hr/>
	12,184	12,347

The trend of falling FE and HE Full-time headcount is continuing within the College, however the College is seeing an increase in part-time headcount. This trend seems to be consistent with other colleges in the sector. The fall in full-time headcount can largely be attributed to more young people staying on to 6<sup>th</sup> year in school and increasing articulation straight to University and increased employment prospect for young people leaving school directly.

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# ANALYTICAL REVIEW (continued)

## Summary

	All Student Enrolments	
Student Numbers	2018/19	2017/18
Headcount:		
FEFT	6,380	6,724
FEPT	12,556	9,469
	<hr/>	<hr/>
	18,936	16,193

There has been a 16.9% increase in the number of student enrolments during the year. There has been a 32.6% increase in the number of part-time student enrolments in the year and a 5.4% decrease in the number of full-time enrolments in the year.

The increase in students on part time courses only translates to a 2.3% increase in those on fundable courses whilst the drop in students on full time fundable courses is 5.7%.

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# ANALYTICAL REVIEW (continued)

Source of Finance of Fee for Student	Ayrshire College		
	2018/19 (£)	2017/18 (£)	Difference (£)
22 - Fee Waiver - full-time non-advanced	3,307,248.00	3,525,984.00	- 218,736
23 - Fee Waiver - income support	6,307.00	10,678.00	- 4,371
24 - Fee Waiver - low income	1,839.00	508.00	1,331
25 - Fee Waiver - Islands Authority Fee Waiver (excl. Orkney and Shetland)			-
26 - Fee Waiver - cost borne by college	82,981.00	63,785.00	19,196
28 - Fee Waiver - Incapacity Benefit	250.00	395.00	- 145
29 - Fee Waiver - Severe Disablement Allowance	226.00		226
30 - Fee Waiver - housing benefit	6,032.00	6,198.00	- 166
33 - Fee waiver - student on a DPG 18 programme	49,342.00	192,083.00	- 142,741
37 - Fee Waiver - carers allowance	2,606.00	3,283.00	- 677
38 - Fee Waiver - disability living allowance	6,083.00	6,164.00	- 81
39 - Fee waiver - pension credit	330.00	548.00	- 218
40 - Fee Waiver - working tax credit	11,809.00	12,849.00	- 1,040
41 - Fee waiver - old FT criteria	633,779.00	342,357.00	291,422
42 - Fee waiver - school pupil	290,625.00	255,062.00	35,563
43 - Fee waiver - attendance allowance	431.00	321.00	110
44 - Fee waiver - income based job seekers allowance	19,915.00	42,581.00	- 22,666
46 - Fee Waiver - Veterans	113.00		113
47 - Fee waiver – income-related employment and support allowance	14,514.00	13,650.00	864
48 - Fee Waiver - student in care	85.00	0.00	85
49 - Fee Waiver - Asylum seeker or spouse or child of an asylum seeker	85.00	169.00	- 84
50 - Fee Waiver – contribution based employment and support allowance	1,213.00	1,771.00	- 558
52 - Fee Waiver – Personal Independence Payment (PIP)	4,871.00	2,413.00	2,458
53 - Fee Waiver – Universal credit (UC)	55,869.00	11,937.00	43,132
Overall	4,493,753	4,492,736	3,017
Total - including cost borne by college	82,981	63,785	19,196
Total overclaim for individual students	38,878	25,539	13,339
Total - excluding cost borne by college	4,412,772.00	4,428,951.00	- 16,179
Total - excluding cost borne by college and overclaims	4,373,894.00	4,403,412.00	- 29,518

# ANALYTICAL REVIEW

## Fee Waiver Summary

There has been an overall increase in fee waiver (excluding cost borne by college and over claims) of roughly 1%.

There has been a 4 fold increase (£43K) in the amount of waiver claimed for Universal Credit, this is due to the move in the way benefits are paid to the Universal Credit system and away from areas such as Income Support (down by 40% - £4.4K) in the year.

There has been an increase in costs borne by the College (30%, £19K).

Categories fluctuate as a result of the type of student enrolled at the College and, as such, it is not unreasonable for the totals within the individual categories to vary from year to year.

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# CONCLUSION AND ACKNOWLEDGEMENT

## Conclusion

Following our review of the College's systems and procedures for collecting and recording data in respect of the FES and Fee waiver returns we can confirm that no findings have resulted from the work and that no adjustments are being recommended to the figure for credits being claimed by the College. We have noted four observations from the work we have completed but these are being made for the College to consider how to improve their management of these areas and they did not reduce level of confidence that we had in the accuracy of the credits claimed due to other controls being in place that provided the confirmation we were seeking in these particular areas.

## Acknowledgement

We wish to thank the College staff for their co-operation and assistance throughout this review, which was much appreciated.

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# Appendix I - Observations

## Observations

### 1. Attendance confirmation:

We found during a number of the tests that we were not able to confirm attendance for a number of courses. These were courses that were community based, work place or distance learning and did not require attendance on the College campus. No attendance records were kept for these courses. We were able to confirm that the students completed the courses through other information provided but, for consistency, the College should consider the use of attendance forms for all courses so that attendance can be more easily confirmed.

### 2. Distance learning enrolment:

For 9 out of the 10 students sampled that were on distance learning course, there was no evidence seen of an enrolment form having been completed. Evidence was seen to confirm that the student was on the course and completed it but, for consistency with other courses, the College should consider having application forms completed for all Distance Learning students.

### 3. Required Date Calculations:




When the required dates for the 10 courses selected was re-calculated using the formula provided by the College, 3 were found to be incorrect by more than 5 days. We were provided with sufficient assurances that additional checking is done to confirm a student's eligibility for the credits associated with the course if they leave during the academic year. The College should double check to make sure that the Required Date calculations as shown on the system are accurate.

### 4. Withdrawal confirmation:

One of the sample selected to confirm the withdrawal procedures found that it did not have the correctly formatted email confirming that the student had been withdrawn from the course. The correct details had been included but it was not in the agreed format. The College should ensure that emails sent to confirm a student withdrawal are in the agreed format.

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# APPENDIX II - DEFINITIONS

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.

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# AYRSHIRE COLLEGE

## INTERNAL AUDIT REPORT

EDUCATION MAINTENANCE ALLOWANCE AUDIT  
AUGUST 2019

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Substantial	Substantial



# AYRSHIRE COLLEGE, EDUCATION MAINTENANCE ALLOWANCE

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## DISTRIBUTION

Michael Breen	Vice Principal - Finance and Skills
James Thomson	Director of Finance and Student Funding
Louise Park	Student Funding Manager

## REPORT STATUS LIST

Auditors:	Gemma Macdonald
Dates work performed:	19 August - 23 August 2019
Draft report issued:	24 September 2019
Final report issued:	24 September 2019

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# AYRSHIRE COLLEGE, EDUCATION MAINTENANCE ALLOWANCE

## EXECUTIVE SUMMARY

### INTRODUCTION:

A review of the College's student data returns has been carried out in accordance with the 'EMA' Audit Guidance Notes for 2018-19 issued on 30 May 2019.

### AUDIT APPROACH AND SCOPE:

We assessed the overall control environment by considering the following:

- Procedures and controls in place to capture data; and
- High level review and involvement by College management

The purpose of the review was to examine the sub-systems used by the College in relation to the management of EMA funds in the context of the SFC audit guidance.

The assessment of the control environment as outlined above was used to determine specific tests and sample sizes.

Our fieldwork, which took 5 days to complete, was undertaken by a part qualified auditor, and was reviewed by the Director responsible for the assignment. All personnel have previous experience of internal audit of FE Colleges.

Our samples were selected from data from the student records system.

### AUDIT TESTS:

A summary of the specific tests, together with sample sizes is detailed below:

- A sample of 25 students, from a population of 917 eligible students was selected.
- We traced each of our sample of students to a completed enrolment form confirming eligibility and the existence of a valid audit trail.
- We re-assessed the applications to ensure they received the correct rate of EMA, and had all relevant documentation in place, such as completed learner agreements.
- We assessed whether student attendance has been monitored effectively for each of the sample.
- We traced the total income received from the SFC to the College's bank account and the monthly remittance advice slips received from the SFC to ensure claims had been correctly recorded.
- We reviewed the College's EMA reconciliation to confirm its accuracy.
- We reviewed the College's spot check workings to assess whether they had spot checked at least 5% of total students.

### CONCLUSION:





The College's systems and procedures were found to be sufficiently adequate to promote the accurate collection and recording of data in respect of the EMA payments.

### ACKNOWLEDGEMENT:




We wish to thank the College staff for their co-operation and assistance throughout this review.

# AYRSHIRE COLLEGE, EDUCATION MAINTENANCE ALLOWANCE

## APPENDIX I - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
<b>Substantial</b> 	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.
<b>Moderate</b> 	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.
<b>Limited</b> 	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.
<b>No</b> 	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

<b>High</b> 	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.
<b>Medium</b> 	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.
<b>Low</b> 	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.

# AYRSHIRE COLLEGE, EDUCATION MAINTENANCE ALLOWANCE

## APPENDIX II - TERMS OF REFERENCE

### PURPOSE OF REVIEW:

Education Maintenance Allowance (EMA) is a benefit paid to students aged 16 -19 years old who live in a low income household and have left, or are about to leave, compulsory education and are carrying on with their studies.

The Scottish Funding Council (SFC) has managed the national EMA programme for Scotland's colleges on behalf of the Scottish Government since 5 April 2004.

In order to comply with the SFC's requirements set out in 'Education Maintenance Allowance AY 2018-19', we have been requested by Ayrshire College to carry out an EMA Audit for the year ended 31 July 2019 with the purpose being to provide an audit certificate giving an opinion on whether:

- the information set out in the EMA return is in agreement with the underlying records;
- the College used these funds in accordance with the SFC's conditions and the principles of the Education Maintenance Allowance programme; and
- the systems and controls of the administration and disbursement of these funds are adequate.

We will also provide the College with an audit report detailing our findings and recommendations, for action by the College and submission to the SFC.

Ayrshire College # 484082  
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# AYRSHIRE COLLEGE

## INTERNAL AUDIT REPORT - DRAFT

STUDENT SUPPORT FUND AUDIT  
AUGUST 2019

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Substantial	Substantial



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# AYRSHIRE COLLEGE, STUDENT SUPPORT FUNDS

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## DISTRIBUTION

Michael Breen	Vice Principal - Finance and Skills
James Thomson	Director of Finance and Student Funding
Louise Park	Student Funding Manager

## REPORT STATUS LIST

Auditors:	Gemma Macdonald
Dates work performed:	19 August - 23 August 2019
Draft report issued:	24 September 2019
Final report issued:	

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# AYRSHIRE COLLEGE, STUDENT SUPPORT FUNDS

## EXECUTIVE SUMMARY

### INTRODUCTION:

A review of the College's student data returns has been carried out in accordance with the 'Student Support Fund' Audit Guidance Notes for 2018-19 issued on 30 May 2019.

### AUDIT APPROACH AND SCOPE:

We assessed the overall control environment by considering the following:

- Procedures and controls in place to capture data; and
- High level review and involvement by College management

The purpose of the review was to examine the system used by the College in relation to the student support fund, in the context of the national policy for further education bursaries, and with consideration of the audit guidance, to examine the processes used to administer student support funds and to complete the aggregated return.

The assessment of the control environment as outlined above was used to determine specific tests and sample sizes.

Our fieldwork which took 5 days to complete, was undertaken by a part-qualified auditor and was reviewed by the Director responsible for the assignment. All personnel have previous experience of internal audit of FE Colleges.

Our samples were randomly selected from data from the student records system.

### AUDIT TESTS:

A summary of the specific tests, together with sample sizes is detailed below:

- A sample of 20 students, from a population of 4,262 eligible students was selected.
- We traced each of our sample of students to their application which was made online, confirming that the eligibility criteria were checked and evidence retained, and reviewed the back-up documentation supporting each of the applications, including confirmation that the applicant's income status is reviewed before awarding a bursary.
- We confirmed that student attendance is monitored effectively for the sample, and confirmed that withdrawn students, or those no longer meeting acceptable attendance criteria, no longer receive payment.
- We confirmed for the sample that the bursary was paid into the bank account of the correct student.
- We traced the total income received from the SFC to the College's bank account and nominal ledger and cross checked the total income to the monthly remittance advices received from the SFC to ensure these have been correctly recorded.
- We matched the College's aggregated returns to the underlying records.
- We confirmed that bursary overspends have been correctly accounted for within the College.
- We tested a sample of 20 students from a population of 368 confirming eligibility for further education or higher education childcare award.
- We tested a sample of 10 students from a population of 266 confirming eligibility for further education discretionary award.

# AYRSHIRE COLLEGE, STUDENT SUPPORT FUNDS

- We confirmed that payments made under discretionary and childcare funds were for allowable expenditure in each of the sample selected.
- We tested a sample of 10 students from a population of 209 confirming eligibility for care experienced bursary.

## CONCLUSION:

The College's systems and procedures were found to be sufficiently adequate to promote the accurate collection and recording of data in respect of the aggregated student support funds returns.





## ACKNOWLEDGEMENT:

We wish to thank the College staff for their co-operation and assistance throughout this review.




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# AYRSHIRE COLLEGE, STUDENT SUPPORT FUNDS

## APPENDIX I - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
<b>Substantial</b> 	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.
<b>Moderate</b> 	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.
<b>Limited</b> 	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.
<b>No</b> 	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

<b>High</b> 	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.
<b>Medium</b> 	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.
<b>Low</b> 	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.

# AYRSHIRE COLLEGE, STUDENT SUPPORT FUNDS

## APPENDIX II - TERMS OF REFERENCE

### PURPOSE OF REVIEW:

The Student Support Fund (SSF) is additional funding received from the Scottish Funding Council (SFC), passed on to students as bursaries, childcare assistance and as other discretionary funds.

In order to comply with the SFC's requirements set out in '2018-19 National policy: childcare funds for further and higher education students in Scotland's colleges', we have been requested by Ayrshire College to carry out an SSF Audit for the year ended 31 July 2019 with the purpose being to provide an audit certificate giving an opinion on whether:

- the aggregate student support fund return has been compiled in agreement with the underlying records;
- the College used these funds in accordance with the Scottish Funding Council conditions; and
- the systems and controls of the administration and disbursement of these funds are adequate.

We will also provide the College with an audit report detailing our findings and recommendations, for action by the College and submission to the SFC.

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FOR MORE INFORMATION:

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# AYRSHIRE COLLEGE

## INTERNAL AUDIT PROGRESS REPORT 2019-20

November 2019



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## Restrictions of use

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

# EXECUTIVE SUMMARY

## Introduction

The purpose of this report is to *advise* the Audit Committee of the progress of the Internal Audit Plan for 2019-20. 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 2019-20.

## Internal Audit Plan 2019 - 20

Since the last Audit Committee meeting, the following internal audit reports for the 2019 - 20 plan have been finalised and are presented under separate cover:

- FES Return
- Student Support Fund
- Corporate Governance




## Conclusion

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

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# WORK COMPLETED

Reports Issued	Overall Report Conclusions - see appendix I				
				Design	Operational Effectiveness
Student Support Fund	0	0	0	Substantial	Substantial
Corporate Governance	0	0	4	Substantial	Substantial
FES Return	0	0	0	Substantial	Substantial

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# PERFORMANCE AGAINST OPERATIONAL PLAN

Visit	Date of visit	Proposed Audit	Planned Days	Actual Days	Status
1	August 2019	Student Support Fund	3	3	Completed.
2	August 2019	Corporate Governance	5	5	Completed.
3	September 2019	FES Return	5	5	Completed.
4	November 2019	Data Protection (GDPR)	5		Work in progress at date of report.
5		Business Continuity Management	5		Fieldwork scheduled to start December 2019
6		Financial Controls	5		Fieldwork scheduled to start January 2020
7		Commercial Income	5		TBC - moved from 2018/19.
8		School and community provision	5		Fieldwork scheduled to start February 2020
9		SFC Returns	5		Fieldwork scheduled to start March 2020
10		Follow Up	3		Fieldwork scheduled to start May 2020

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# AUDIT PERFORMANCE





AUDIT	COMPLETION OF FIELDWORK	DRAFT REPORT	FINAL MANAGEMENT RESPONSES	FINAL REPORT
Student Support Fund	6 <sup>th</sup> September 2019	24 <sup>th</sup> September 2019	24 <sup>th</sup> September 2019	24 <sup>th</sup> September 2019
Corporate Governance	30 <sup>th</sup> August 2019	11 <sup>th</sup> September 2019	30 <sup>th</sup> September 2019	1 <sup>st</sup> October 2019
FES Return	12 <sup>th</sup> September 2019	24 <sup>th</sup> September 2019	1 <sup>st</sup> October 2019	1 <sup>st</sup> October 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

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# 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
<b>Substantial</b> 	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.
<b>Reasonable</b> 	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.
<b>Limited</b> 	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.
<b>No</b> 	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	
<b>High</b> 	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.
<b>Medium</b> 	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.
<b>Low</b> 	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.

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**Ayrshire College  
Audit Committee  
2018-19 Annual Report**

***Draft: 19 November 2019***

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## AYRSHIRE COLLEGE

### 2018-19 AUDIT COMMITTEE INTERNAL ANNUAL REPORT

#### **1. INTRODUCTION**

The Audit Committee of the Board of Management of Ayrshire College presents their annual report in respect of the period 1 August 2018 to 31 July 2019.

#### **2. COMMITTEE MEMBERSHIP**

2.1 Board Members who served on the Audit Committee during 2018-19 were as follows:-

- Gordon James (Chair)
- Hazel Murphy (Vice Chair)
- Margarett Bryan
- Fiona Fawdry
- Scott Keir
- Steven Wallace

2.2 The Audit Committee met on four occasions during the 2018-19 period as follows:

- 18 September 2018
- 27 November 2018
- 19 March 2019
- 11 June 2019

The meetings were attended as required by members of the Executive/Senior Management Team, the External Auditors and the Internal Auditors.

#### **3. INTERNAL AUDIT**

3.1 Internal Audit Services were provided throughout 2018-19 by:

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### 3.2 2018-19 Internal Audit Assignments

The Audit Committee received six Internal Audit reports in respect of 2018-19 (12 months) covering the following operations of the College:

	<b>Audit Areas Covered</b>
Report (1)	Risk Management
Report (2)	Financial Planning
Report (3)	IT Security
Report (4)	Infrastructure Projects
Report (5)	SFC Returns
Report (6)	Student Recruitment

As was the position in previous years, the Scottish Funding Council (SFC) Returns audit above was carried out at the request of the Audit Committee to ensure that good governance was being undertaken in an identified area of risk.

3.3 The SFC Financial Memorandum and the Audit Committee's Terms of Reference state that the Internal Audit Service must produce an annual report addressed to the College's Board of Management and the Chief Executive which should also be considered by the Audit Committee.

The Internal Audit Annual Report for 2018-19 prepared by BDO was presented to the Audit Committee at its November 2019 meeting. The report detailed a number of areas including a statement of the internal audit cover achieved and a summary audit opinion on the College's control environment and systems of internal control.

The following opinion as noted by BDO is extracted from its 2018-19 Annual Report

*In our opinion, based on the other reviews undertaken during the period, and in the context of materiality, we can conclude that:*

- *The risk management activities and controls in the areas which we examined were found to be suitably designed to achieve the specific risk management, control and governance arrangements.*
- *Based on our verification reviews and sample testing, the risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable, but not absolute assurance that the related risk management, control, value for money and governance objectives were achieved for the period under review. Management have agreed the related recommendations*

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*and have made progress towards implementing these recommendations.*

- 3.4 In respect of Internal Audit, the Audit Committee is pleased to confirm to the Board of Management that it is satisfied that the areas audited and the standard of work carried out have been appropriate.
- 3.5 Based on the audit assignments completed during 2018-19 and the engagement with the Internal Auditors, the members of the Audit Committee believe that their responsibilities in respect of Internal Audit to the Board of Management have been satisfactorily discharged.

#### **4. EXTERNAL AUDIT**

##### **4.1 2018-19 Financial Statements**

Mazars presented its draft Annual Audit Report to the Board of Management of Ayrshire College and the Auditor General for Scotland for the year ended 31 July 2018 to the Audit Committee at its meeting on 26 November 2019.

The Mazars annual report, in line with governance arrangements, will be presented to the Board of Management at its meeting on 12 December 2019.

Mazars has issued an unqualified opinion in relation to the 2018-19 Annual Financial Statements for Ayrshire College. Mazars' audit opinions are as follows:

##### **Opinion on financial statements**

*In our opinion the...financial statements:*

- *give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2019 and of its deficit for the year then ended;*
- *have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and*
- *have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).*

## **Opinion on regularity**

*In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.*

## **Opinion on other prescribed matters**

*In our opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.*

*In our opinion, based on the work undertaken in the course of the audit*

- *the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; and*
- *The information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.*

## **Matters on which we are required to report by exception**

*We are required by The Charities Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:*

- *adequate accounting records have not been kept; or*
- *the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or*
- *We have not received all the information and explanations we require for our audit.*

*We have nothing to report in respect of these matters.*

### **4.2 2018-19 Academic Year Audits by BDO**

BDO, as Internal Auditors, have undertaken the following annual audits for Academic Year 2018-19, reporting to SFC or Students Awards Agency for Scotland ('SAAS')

- *2018-19 Credits Audit*
- *2018-19 Student Support Funds Audits.*

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These audits were satisfactory and the various BDO reports or copies of signed certification were presented to the Audit Committee at its meeting on 26 November 2019.

## **5. RISK MANAGEMENT**

- 5.1 Risk Management has a high profile within Ayrshire College and the Risk Register is updated by the Executive Leadership Team on a quarterly basis and presented as a standing item to each Audit Committee meeting for review, discussion, amendment and approval. The most recent Risk Register for AY 2018-19 was the June 2019 (V4) Risk Register presented to the Audit Committee on 11 June 2019 for its approval and then was approved by the Board of Management on 20 June 2019. The Risk Register is also a standing Agenda items for the Board of Management meetings.

## **6. Other Matters**

There are no other matters to report.

## **7. CONCLUSION**

Based on the engagement with both Internal and External Auditors at each Audit Committee meeting, the Members of the Audit Committee believe their responsibilities to the Board of Management have been satisfactorily discharged for 2018-19 in relation to the matters contained within this report.

.....  
Mr Gordon James, Chair of Audit Committee  
26 November 2019

## **Publication**

Due to the commercially sensitive information, this paper will not be published on the College website.

**Audit Committee Meeting**

**26 November 2019**

- Subject:** Business Continuity Plan (V4) at November 2019
- Purpose:** To present to the Audit Committee the updated Business Continuity Plan (V\$) for review, discussion and approval
- Recommendation:** The Audit Committee is asked to approve the Business Continuity Plan (V4).
- 

**1. Background**

Business Continuity is seen as the activities required to maintain and recover College operational effectiveness against threats or events which, if realised, may materialise as incidents and ultimately escalate into a full scale emergency or crisis.

A Business Continuity Plan (BCP) is required to guide actions and responses in a structured manner in the event of a sudden or unseen event that could seriously disrupt College operations and impair its ability to operate services efficiently and effectively.

The College developed its first BCP in November 2014. The most recent BCP was approved by the Audit Committee in September 2018.

**2. Current Situation**

The College has established a Business Continuity Plan Steering Group. The purpose of the Group is to ensure the College's BCP is continually monitored and up to date. The Group's membership includes staff from curriculum and service areas. Attendees have been selected to give a cross-representation of the key areas of the College and are directly linked to the lead roles identified in the College's BCP.

The Group meets on a quarterly basis to review and consider any BCP events that have taken place and to assess the College's response to the event. The Group is responsible for updating the BCP, where relevant, after each meeting and conducts a full formal review of the BCP review on an annual basis. The Group's responsibilities include overseeing frequent testing of the College's BCP arrangements.

The College's BCP arrangements were live tested through BCP events that took place between September 2018 and November 2019. These included the temporary closure of the Nethermain campus due to adverse weather conditions and fire evacuations.

The live BCP events that have taken place during 2018-19 and the work of the BCP Steering Group have been used to develop and enhance the Business Continuity Plan (V4).

Business Continuity Plan (V4) is now presented to members for their review and approval.

### **3. Proposals**

No further proposals are contained in this report.

### **4. Consultation**

No formal consultation is required given the subject of this paper.

### **5. Resource Implications**

No specific resource implications require to be noted.

### **6. Risks**

The BCP addresses a number of key risks which the College may face, including for example denial of access and loss of computer records and data.

### **7. Equality Impact Assessment**

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

### **8. Conclusion**

The Audit Committee is asked to approve the Business Continuity Plan (V4).

**Michael Breen**  
**Vice Principal, Finance**  
**14 November 2019**

*[James Thomson, Director of Finance, Student Funding and Estates]*

Ayrshire College # 484082  
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**Audit Committee Meeting****26 November 2019**

**Subject:** 2019-20 Internal Audit Rolling Internal Audit Action Plan at 8 November 2019

**Purpose:** To provide Members with an update on the Rolling Internal Audit Action Plan as at 8 November 2019

**Recommendation:** Members are asked to note the content of this paper

**1. Background**

The rolling Internal Audit Action Plan was last presented to the Audit Committee at its meeting on 17 September. 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. It is reviewed on a monthly basis by the College's Senior Leadership Team (SLT) and presented to each meeting of the Audit Committee.

**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 and the 19-20 audit plan approved by the Audit Committee on 11 June 2019.

Table 1 below lists all outstanding recommendations from the internal audits that are due to have been completed by 8 November 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	1	1	0
2	2018-19	IT Security	3	3	0
3	2019-20	Corporate Governance	2	2	0
<b>TOTAL</b>			<b>6</b>	<b>6</b>	<b>0</b>

**1. Infrastructure Projects**

This audit point is now completed. The internal audit point relates to the College providing quarterly updates on capital project activity to senior management and to the BRIC Committee. A quarterly report on 2019-20 capital spend is being presented to the November SLT meeting. Subject to its approval it will be presented to the next BRIC Committee meeting.

## 2. IT Security

The first of the three 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. ICT has built this functionality into the new Sysaid service desk solution and the audit point is now completed.

The second of the three audit points was that the College would review options and the added value of procuring a mobile device management package. This has been completed. The College has implemented Microsoft's mobile access package (Intune) and some devices are already enrolled. IT staff are now working with holders of mobile devices to ensure that their devices are enrolled.

The third of the three 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 training undertaken by staff. Rather than create a stand-alone USB devices policy, the College has included guidance on USB devices within the ICT Acceptable Use Policy. The audit point is therefore now completed.

## 3. Corporate Governance

The first of the two audit points recommended that the College maintains an individual training log for each board member. This log has been created and will be maintained and updated going forward. The audit point is therefore complete.

The second of the two audit points noted that the Board and Audit Committee Terms of Reference still referenced the previous committee structure or committee names. The audit recommendation was that the terms of reference were updated to reflect the current committee structure. The terms of reference have been updated and this audit point has been completed.

### **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.

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**7. Equality Impact Assessment**

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

**8. Conclusion**

Members are asked to note the content of this paper.

**Michael Breen**  
**Vice Principal, Finance and Skills**  
**14 November 2019**

*(James Thomson, Director of Finance, Student Funding and Estates )*

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