

West Lothian College

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the West Lothian College and the Auditor General for Scotland
November 2023

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Key messages

2022/23 annual report and accounts

- 1** Audit opinions on the annual report and accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.
- 2** Key risks facing arising from the audit of West Lothian College accounts in our Annual Audit Plan were shared with the Audit Committee on 8 June 2023. There are no significant matters from that work to draw to the attention of the Board.
- 3** Material adjustments have been made to the annual report and accounts as a result of the audit process.

Wider scope

- 4** West Lothian College reported a deficit of £1.717 million in the 2022/23 adjusted operating position.
- 5** West Lothian College is forecasting a deficit position and is working towards achieving a balanced budget.
- 6** Financial system of internal controls operated as expected with the exception of journal authorisation although mitigating controls are in place.
- 7** West Lothian College has appropriate arrangements in place to secure Best Value.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of West Lothian College. The scope of the audit was set out in an Annual Audit Plan presented to the 8 June 2023 meeting of the Audit Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of West Lothian College's annual report and accounts
- wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability

2. This report is addressed to the Board of West Lothian College and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. I, Brian Battison have been appointed by the Auditor General as auditor of West Lothian College for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) (the Code) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank board members, audit committee members other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. West Lothian College has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Funding Council. West Lothian College is also responsible for compliance with legislation putting arrangements in place for governance, propriety, and regularity.

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

7. The weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £24,710 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. We add value to West Lothian College by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice identified.

Part 1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

Material adjustments have been made to the annual report and accounts as a result of the audit process.

Audit opinions on the annual report and are unmodified

11. The Audit Committee considered the annual report and accounts for West Lothian College for the year ended 31 July 2023 on 30 November 2023 and recommended these statements to the College's board for approval on 5 December 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income are regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by the Scottish Funding Council.

Overall materiality was assessed on receipt of the annual report and accounts as £0.457 million

12. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Planning £m	Final £m
Overall materiality	£0.471	£0.457
Performance materiality	£0.353	£0.343
Reporting threshold	£0.024	£0.023

Source: Audit Scotland

13. Broadly, auditors apply the concept of materiality to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

14. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality.

16. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

17. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the board including our view about the qualitative aspects of the body's accounting practices.

18. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

19. The significant findings and key audit matters are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>Revaluation reserve accounting</p> <p>During our audit testing of movements in reserves it was identified that there had been no adjustment included within the current and prior year financial statements for the transfer of excess depreciation charged on revalued assets.</p> <p>While it was noted that there was no overall impact on the reported net assets position in the balance sheet, an assessment was required to identify the impact on the revaluation reserve and income and expenditure account reserve.</p> <p>In addition, it was identified that the split of other comprehensive income between the revaluation reserve and income and expenditure account reserve, disclosed within the Statement of Changes in Reserves, had incorrectly included the unrealised surplus on revaluation of assets of £3.879 million as a movement in the income and expenditure account.</p>	<p>A review of the revaluation reserve per asset was completed and it was determined that the excess depreciation was £0.631 million in both 2021/22 and 2022/23. This represented a material misstatement in the revaluation reserve and income and expenditure account reserve at 31 July 2022 and 31 July 2023.</p> <p>A prior year restatement of the revaluation reserve and income and expenditure account reserve has been made to adjust for the misstatements identified.</p> <p>There was no overall impact on the reported net asset position in the Balance Sheet for 2021/22 or 2022/23 as a result of these adjustments.</p> <p>Recommendation 1 (refer Appendix 1, action plan)</p>

Source: Audit Scotland

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

20. We have obtained audit assurances over the identified significant risks of material misstatement to the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3**Identified significant risks of material misstatement in the annual report and accounts**

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. 	<ul style="list-style-type: none"> • We assessed the design and implementation of controls over journal entry processing, and we have identified that there is no process in place for the approval of journals. See paragraph 45 and recommendation 2 • We carried out an enhanced assessment of journals throughout the year as part of our testing. No significant issues were identified from this work. • There were no significant transactions outside the normal course of business • We reviewed the methods and underlying assumptions used to prepare accounting estimates and noted that the only significant change compared to the prior year was in respect of those estimates relating to staff costs including the back-pay and holiday pay accrual. • These estimates were based on the current pay award offer which has not yet been agreed. • Assurance was gained that the assumptions used in the calculation of these accruals were reasonable. • No significant issues were identified in the testing of income and expenditure transactions around the year end.

Audit risk	Assurance procedure	Results and conclusions
<p>2. Valuation of land and buildings</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p> <p>Land and buildings are formally valued by external valuers every five years with an interim valuation at year three. There is no valuation exercise planned for 2022/23. Values may change year on year, and it is important that West Lothian College ensures the financial statements accurately reflect the value of the land and buildings.</p>	<ul style="list-style-type: none"> Assess the approach the College has adopted for the valuation of land and buildings. 	<ul style="list-style-type: none"> We assessed the College's approach for the valuation of land and buildings and assurance has been gained that there are no material misstatements in the carrying value of land and buildings.

21. In addition, we identified an “area of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be other risks of material misstatement to the financial statements. The areas of specific audit focus were:

- Valuation of Pension**

The college is an admitted body of Lothian Pension Fund and recognised a pension asset in 2021/22 and 2022/23. The asset recognised required the use of an actuarial methodology based on a range of assumptions including financial and demographic assumptions. These assumptions should reflect the profile of the college's employees and be based on appropriate data. This was an area of audit focus because the methodology applied could have a material impact on the disclosed pension asset (or liability).

We assessed the scope, independence and competence of the professionals engaged to provide estimates for pensions and reviewed the appropriateness of actuarial assumptions and results including a comparison with other bodies. We also established officer's arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to Lothian Pension Fund and the Actuary.

22. We kept this area under review throughout our audit. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

Identified net misstatements of £0.154 million were adjusted in the financial statements

23. In addition to the misstatements outlined in [Exhibit 2](#), other misstatements of £0.154 million were identified in the annual accounts. Details of misstatements above our reporting threshold are disclosed within [Appendix 2](#).

24. As noted in [Exhibit 2](#) material adjustments totalling £1.262 million were made related to the accounting for a transfer of excess depreciation from the revaluation reserve to the income and expenditure account of £0.631 million in 2022/23 and a prior year restatement of £0.631 million in 2021/22.

25. We concluded that further audit procedures were not required as the misstatements arose from issues which have been isolated and identified in their entirety and do not indicate further systematic error.

There was one non-material misstatement identified within the financial statements

26. We identified one misstatement of £0.056 million in respect of a licences prepayment which was not corrected by management in the audited accounts. We considered the size, nature and circumstances leading to this uncorrected misstatement and concluded that this was not material.

The unaudited annual report and accounts were received in line with the agreed timetable

27. The unaudited annual report and accounts and working papers were received in line with our agreed audit timetable on 9 October 2023.

Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial management and sustainability of the body and the services that it delivers over the medium to longer term

Conclusion

West Lothian College reported a deficit in the 2022/23 adjusted operating position.

West Lothian College is forecasting a deficit position and is working towards achieving a balanced budget.

Financial systems of internal controls operated as expected with the exception of journal authorisation.

West Lothian College has appropriate arrangements in place for securing Best Value.

West Lothian College reported a deficit in the 2022/23 adjusted operating position

28. The 2022/23 accounts direction from the Scottish Funding Council requires the disclosure of an adjusted operating position. The Statement of Comprehensive Income presents the financial performance during the accounting period in accordance with the Statement of Recommended Practice: Accounting for Further and Higher education (SORP). The Adjusted Operating Position is intended to reflect the underlying operating performance after allowing for material one-off or distorting items required by the SORP or other items out with the control of the college. The adjusted operating position is designed to smooth any volatility in reported results arising from FRS 102 and to recognise that some of the reported costs do not have an immediate cash impact on the college.

29. The College's adjusted operating position in 2022/23 was a deficit of £1.717 million, see [Exhibit 4](#). As the table shows, the significant change between financial years is the updated actuarial adjustments for 2022/23, with a movement in the net service and interest costs totalling £1.711 million.

Exhibit 4

Adjusted Operating Position in 2022/23

	2022/23 £m	2021/22 £m	Movement £m
Deficit before other gains and losses	(2,796)	(2,636)	(160)
Depreciation (net of deferred capital grant)	644	409	235
Pension adjustments	625	2,336	(1,711)
Cash Budget for Priorities (CBP) allocated to Early Retirement Payments	190	190	0
Adjusted Operating Position	(1,717)	(81)	(1,636)

Source: West Lothian College

West Lothian College is forecasting a deficit position and is working towards achieving a balanced budget

30. The main financial objective for West Lothian College is to achieve a balanced budget each year in line with Scottish Funding Council guidance. Where a deficit is forecast in any year, colleges must work towards bringing income and expenditure back into balance over the forecast period.

31. A revised three-year Financial Forecast Return (FFR) was presented to West Lothian College's Board meeting on 26 September 2023 which indicated that West Lothian College is forecasting a deficit for 2023/24. The Financial Forecast shown in [Exhibit 5](#) is underpinned by key assumptions provided by the Scottish Funding Council in respect of funding, the current offer in respect of pay policy for 2023/24 and 2024/25 and inflationary increases in expenditure.

32. The Board discussed the financial strategy for the 2023/24 to 2025/26 period at a strategy day on 16 May 2023 and agreed a deficit budget could be set for 2023/24 and 2024/25 on the basis that actions would be taken by management to return to a break-even budget by 2025/26.

33. The Executive Leadership Team is working to develop and agree actions to deliver a balanced budget on a trading basis excluding estates investment. These actions involve developing new income sources and reviewing expenditure while minimising the impact on staff and students. We will continue to monitor the college's progress with their financial plans.

Exhibit 5

Financial Forecast Return

	Forecast 2023/24 £'000	Forecast 2024/25 £'000	Forecast 2025/26 £'000
Total income	21,366	21,466	21,776
Staff costs	(15,001)	(14,892)	(15,050)
Total other expenditure	(7,415)	(7,037)	(7,189)
Surplus / (deficit) before other gains and losses	(1,050)	(463)	(463)
Add back: Depreciation – net of deferred capital grant	462	462	462
Less: Cash based priorities allocation	(190)	(190)	(190)
Adjusted operating result	(778)	(191)	(191)

Source: West Lothian College

Cyber Security

34. West Lothian College have a three-year Digital Strategy which was approved by the Audit Committee at their June 2023 meeting. Included within this strategy is the aim of ensuring data protection, cyber security, and infrastructure resilience by implementing robust data protection measures and cyber security protocols to ensure the safety and privacy of their digital community. As part of the implementation of their digital strategy, West Lothian College achieved Cyber Essentials Plus status on 24 May 2023.

35. Elements of digital infrastructure are provided by West Lothian Council under a shared service agreement, but the College has its own digital infrastructure team responsible for the oversight of the information technology environment and delivery of the Digital Strategy.

36. Infrastructure and cyber security updates are provided at each Audit Committee meeting and the risks associated with cyber security are included and monitored as part of the College's Strategic Risk Register. We have concluded that West Lothian College has adequate arrangements for cyber security and mitigation of cyber security risks.

Climate change arrangements

37. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including 75 percent reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met in adapting to the impacts of climate change.

38. The Scottish Government has recently published guidance on public sector leadership on the global climate emergency to help public bodies in leading climate action. Addressing the climate emergency and setting actions to achieve net zero will need to be a key element of College's recovery and renewal from the pandemic.

39. The Climate Change Act 2019 committed Scotland to Net Zero by 2045. The Public Bodies Climate Change Reporting Duties place a legal requirement on public bodies to set target dates for zero direct emissions and indirect emission reductions. They must also report on how spending and resources will contribute to these targets, and report on the body's contribution to Scotland's Climate Change Adaptation Programme.

40. West Lothian College has committed to achieving Net Zero emissions by 2040 or earlier in line with the [Scottish Colleges' Statement on Commitment on the Climate Emergency](#). The College has published a five-year [Net Zero Plan](#) which is reviewed and updated annually, including an analysis of annual emission reductions against targets. In addition, the College has implemented a Strategic Oversight Group who will have the responsibility to oversee the delivery of the net zero plan and will provide regular updates to the Board.

41. West Lothian College has been undertaking a decarbonisation programme with Ameresco, who work with UK wide organisations to delivery carbon savings in the build environment. In 2022/23, Ameresco completed an initial evaluation of the College's estate and West Lothian College commenced decarbonisation projects in Building four as part of delivering their decarbonisation programme, which is forecast to be completed in 2023/24.

42. During 2022/23, West Lothian College completed the construction of an ECOHOUSE Skills Centre for Sustainable Living to provide a facility that provides training for students on the installation and maintenance of sustainable technologies.

43. We have concluded that West Lothian College has adequate climate changes arrangements in place to meet their obligations under the targets set by the Scottish Government.

Financial system of internal controls operated as expected with the exception of journal authorisation

44. We carried out a high-level review of the main financial systems during 2022/23. We concluded that controls operated as expected with the exception of journal authorisation.

45. During our review of the processes and controls surrounding manual journals we identified that there is no approval process for journals within the general ledger system and that all members of the finance team can raise journals within the system. We noted that the College has effective budgetary controls which act as a mitigation. However, there is a risk that unauthorised journals are processed in the general ledger and therefore scope for error, irregularities or manipulation of the College's income and expenditure.

Refer to [Appendix 1](#), recommendation 2

Transparency

46. West Lothian College publishes Corporate and Governance information including plans, policies, board, and committee papers on their website.

47. A review was carried out of the information published on the College's website and it was noted that information, policies, and committee papers were not up to date and included information and documents which have been superseded. The Senior Team should continue to review their publicly available information to ensure that this is reviewed and updated on a regular basis.

Refer to [Appendix 1](#), recommendation 3

West Lothian College has appropriate arrangements in place for securing Best Value

48. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

49. From our discussions with officers, review of board and committee papers and attendance at committee meetings, we concluded that West Lothian College has satisfactory best value arrangements.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Revaluation reserve</p> <p>During the audit it was identified that appropriate adjustments were not made in 2021/22 and 2022/23 to transfer excess depreciation on revalued assets to the income and expenditure account which required a material adjustment to the 2022/23 financial statements and a prior year restatement of the 2021/22 reserves.</p> <p>Risk – Material misstatement of reserves.</p>	<p>We recommend that an annual review is completed of the revaluation reserve to ensure the appropriate adjustments are included for excess depreciation on revalued assets.</p> <p>Exhibit 2</p>	<p>Action agreed.</p> <p>Responsible officer: Head of Finance</p> <p>Agreed date 30 September 2024</p>
<p>2. Approval of journals</p> <p>Through discussions with management and our review of internal controls relating to journal entries we identified that there is no approval of journals processed.</p> <p>Risk – There is an increased risk of fraud or error where a secondary review of journals is not undertaken.</p>	<p>We recommend that a review of the systems of internal control relating to the approval of journals is completed. As a minimum there should be a formal documented independent review/approval of journals processed as part of the management accounts process.</p> <p>Paragraph 45</p>	<p>As discussed, majority of journals are system processed. Agree a review of manual journals annually as part of the financial statements review, not monthly management accounts.</p> <p>Responsible officer: Vice Principal, Finance and Corporate Services</p> <p>Agreed date: 30 September 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>3. Maintenance of documents on College's website</p> <p>During our audit we identified that information, policies, and committee papers included within the College's website were not up to date and included information and documents which have been superseded.</p>	<p>A regular review should be conducted of the corporate governance information and documents included on the College's website to ensure that these are appropriate and reflect the current information available.</p> <p>Paragraph 47</p>	<p>The website has now been updated and going forward Senior Team will agree a process to ensure information is current</p> <p>Responsible officer: Head of Student Experience and Improvement</p> <p>Agreed date: December 2023</p>

Appendix 2. Summary of corrected misstatements

We report all corrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £23,000.

The table below summarises corrected misstatements that were noted during our audit testing.

Narrative	Account areas	Statement of Comprehensive Income		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
Accounting Misstatements					
1. Release of deferred SFC (Scottish Funding Council) grant income brought forward	Deferred income			188	
	SFC Grant income		188		
2. Correction of European partner income	Other income	26			
	Trade Creditors				26

West Lothian College

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