North Highland College

Report to the Audit & Risk Management Committee, the College and the Auditor General for Scotland on the 2022/23 audit

Issued on 25 February 2025

Contents

Partner introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our report to the Audit & Risk Management Committee ("the Committee") of UHI North, West and Hebrides ("the College") for the North Highland College 2022/23 audit. The report summarises our findings and conclusions made to date in relation to the audit of the Annual Report and Accounts and the wider scope requirements, the scope of which was set out within our planning report issued to the Committee in September 2023.

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our audit work completed to date, and subject to the satisfactory resolution of the outstanding matters noted on slide 4 of this report, we expect to issue an unmodified audit opinion.

We have provided management with comments and suggested changes based on our review of the draft Annual Report and Accounts. The updated accounts are going through the final stages of internal quality review.

During the 2022/23 audit, errors were identified by both management and Deloitte that related to the 2021/22 accounts that were audited by our predecessor. The required adjustments have been posted by management and these are explained in note 27 of the financial statements.

A summary of our work on the significant risks is provided in the dashboard on slide 8.

We have identified two prior period adjustments which have been corrected by management, and two current year material corrected misstatements. In addition to this, we have identified four unadjusted misstatement in excess of our reporting threshold of £14k. Details of all misstatements are included in the appendix to this report.

Partner introduction (continued)

The key messages in this report (continued)

Status of the Annual Report and Accounts audit

Outstanding matters to conclude the audit include:

- Finalisation of journals testing;
- Finalisation of post year-end invoices and payments testing;
- Finalisation of deferred capital grant adjustments;
- Review of prior year adjustments by Deloitte technical team;
- Finalisation of Remuneration Report work;
- Completion of internal quality control procedures;
- Receipt of final Annual Report and Accounts;
- Receipt of signed management representation letter; and
- Our review of events since 31 July 2023.

Conclusions from wider scope audit work

See pages 20 to 28 of this report for detailed conclusions of our wider scope work.

Control Findings

Control findings and recommendations are included on pages 14 and 15 of this report.

Added value

Our aim is to add value to the College by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the College promote improved standards of governance, better management and decision making, and more effective use of resources. This is provided throughout the report.

We have also included our "sector developments" on slide 31.

Ian Howse
Lead Audit Partner

Annual Report and Accounts Audit

Quality indicators

Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason	Further detail
Timing of key accounting judgements	!	We experienced delays in the delivery of information regarding management judgements.	N/A
Adherence to deliverables timetable	!	Delays on the delivery of information was experienced during our audit.	N/A
Access to finance team and other key personnel	!	We experienced difficulty with the involvement of the finance team at times during the audit process. This improved throughout the audit.	N/A
Quality and accuracy of management working papers	!	We identified instances where management working papers were below our expected level of quality.	N/A
Quality of draft Annual Report and Accounts	!	Presentational and disclosure points were raised on the draft version of the Annual Report and Accounts and were amended by management.	Slide 15 and 36
Response to control deficiencies identified	!	Three control deficiencies have been identified. Further details can be found on slides 14-15.	Slides 14-15
Volume and magnitude of identified errors	!	Material prior period adjustments were required throughout the audit, with a number of immaterial unadjusted misstatements also identified.	Slides 33-35

! Lagging ! Developing Mature

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. We would like to draw to your attention to slides 14 and 15, which detail controls findings reported during our audit.

Determine materiality

When planning our audit, we set our materiality at £223,000 based on forecast gross expenditure. We have updated this to reflect final figures and completed our audit to a materiality of £282,000 and a performance materiality of £197,000. We report to you in this report all misstatements above £14,000.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas

We draw to the Audit & Risk Management Committee's attention our conclusions on the significant audit risks. In particular the Audit & Risk Management Committee must satisfy themselves that management's judgements are appropriate.

Our audit report

Based on our audit work completed to date, and subject to the satisfactory resolution of the outstanding matters noted on slide 4 of this report, we expect to issue an unmodified audit opinion.

Significant risks

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Controls conclusion	Consistency of judgements with Deloitte's expectations
Management override of controls	✓	DI	See control finding on page 14 and 15	Consistent
Property valuations	✗	DI	See control finding on page 14	Inconsistent
Operating within the funding provided	✓	DI	Satisfactory.	Improvement required
Completeness of income	✓	DI	TBC	Consistent

Consistency of judgements with Deloitte's expectations

- Inconsistent
- Improvement required
- Consistent

Controls approach adopted

DI Assess design & implementation

Significant risks (continued)

Management override of controls

Risk identified

In accordance with ISA (UK) 240 management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the Annual Report and Accounts as well as the potential to override North Highland College's controls for specific transactions.

The key judgments in the Annual Report and Accounts are those which we have selected to be the significant audit risks – income recognition and operating within the funding provided. These are inherently the areas in which management has the potential to use their judgment to influence the Annual Report and Accounts.

Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

- We have considered the overall control environment and 'tone at the top'
- We have reviewed the design and implementation of controls in relation to journals and accounting estimates.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We have used our Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest.

Accounting estimates and judgements.

We have reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Report and Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias; and.
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Report and Accounts of the prior year.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Deloitte view

We are still finalising our journals work in response to the management override significant risk. Based on our work performed to date we have identified a control weakness in relation to the accounting system software. The programme used does not require authorisation prior to posting of journals and therefore this has resulted in a control recommendation. See slide 14 for more details.

In addition, the errors identified throughout our audit indicates there is a lack of effective review during the accounts preparation process. See slide 15 for further details.

Significant risks (continued)

Property valuations

Risk identified and key judgements

North Highland College held £24.9m of property assets (land and buildings) at 31 July 2021 which increased to £26.1m as at 31 July 2022, due to upwards revaluations as a result of the College undertaking a full independent valuation exercise during 2021/22 by third party valuers Graham & Sibbald, Chartered Surveyors. In 2022/23 the College did not perform a full independent valuation as the college's accounting policy is to perform a full revaluation at least every 5 years.

The College is required to hold property assets within Property, Plant and Equipment at existing use value provided that an active market for the asset exists. Where there is no active market, because of the specialist nature of the asset, a depreciated replacement cost approach may be needed which provides the current cost of replacing an asset with its modern equivalent asset. The valuations are by nature significant estimates which are based on specialist and management assumptions, and which can be subject to material changes in value.

There is hence the risk of inappropriate methodology or assumptions used in valuation of the asset portfolio, and in particular the application of the modern equivalent asset principles. There is also the risk that the carrying value of assets not revalued is materially misstated because assets which have not been revalued at the reporting date have changed materially in value since the date of the last valuation.

Deloitte response and challenge

We have reviewed the design and implementation of key controls in place around the property valuation and impairment analysis.

We have reviewed and tested the valuation disclosures made in the Annual Report and Accounts.

We used our valuation specialists, Deloitte Real Asset Advisory, to provide insight on the movement in BCIS rates and obsolescence factors during the year which may have an impact on the overall valuation of North Highland College property assets. This includes the potential impact of backlog maintenance on the valuation and useful economic life of the buildings within the College Estate.

We have challenged management's assessment for material changes in value for those property assets not subject to a full valuation during the year.

Deloitte view

Our work on this risk is undergoing the final stages of quality review. Based on our work performed, one control weakness and one prior period adjustment in relation to the property valuation significant risk have been identified.

The control deficiency identified relates to there being no impairment review performed in the years between the interim and full revaluations. Details of this finding are included on page 14.

The prior period adjustment identified relates to an error made in the 2021/22 valuation that has carried forward into 2022/23. Full details of this adjustment are included on page 35.

Significant risks (continued)
Operating within the funding provided

Risk identified and key judgements

In accordance with Practice Note 10 (Audit of Annual Accounts of public sector bodies in the United Kingdom), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, auditors of public sector bodies should also consider the risk of fraud and error on expenditure. This is on basis that most public bodies are net spending bodies, therefore the risk of material misstatement due to fraud related expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition.

We consider this fraud risk to be focused on how management operate within the funding available. The risk is that North Highland College could materially misstate expenditure in relation to year-end transactions, in an attempt to align with its tolerance target or achieve a breakeven position.

The significant risk is therefore pinpointed to the completeness of accruals and the existence of prepayments made by management at the year-end and invoices processed around the year-end as this is the area where there is scope to manipulate the final results. Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.

Deloitte response and challenge

We have evaluated the results of our audit testing in the context of the achievement of the limits set by the Scottish Funding Council. Our work in this area included the following:

- Reviewing the design and implementation of controls around monthly monitoring of financial performance and the estimated accruals and prepayments made at the year-end;
- Obtaining independent confirmation of the funding allocated to North Highland College by the Scottish Funding Council (SFC) and the University of Highlands and Islands (UHI);
- Performing focused testing of accruals and prepayments made at the year-end; and
- Performing focused cut-off testing of invoices received and paid around the year-end.

Deloitte view

Prepayments and accruals are areas where misstatements may occur if expenditure is manipulated around year end to present a more favourable position. We are in the process of finalising our testing of invoices received and paid around the year-end. To date, we have identified one unadjusted misstatement through our testing of invoices received post year end. Details of this adjustment are included on page 33.

Significant risks (continued)

Completeness of income

Risk identified and key judgements

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

We therefore considered the income streams of North Highland College and concluded that the risk of material misstatement due to fraud is pinpointed to non-recurrent funding. Specifically, the recognition of grant income with conditions attached and the recognition of income with performance conditions attached.

Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of deferred and accrued income around year-end.

Deloitte response and challenge

We have evaluated the results of our audit testing in the context of the completeness of income. Our work in this area included the following:

- Reviewing the design and implementation of controls around recognition of non-recurrent income;
- Performing focused testing of grant income where there are conditions of entitlement including clawback clauses; and
- Performing focused testing of income with performance conditions attached.

Deloitte view

Our work on this risk is undergoing the final stages of quality review. Based on audit work performed we did not identify any errors within the non-recurrent grant income.

Other Areas of Audit Focus

Defined benefits pension scheme

Background

Retirement benefits to employees of the College are provided by the Teachers Pension Scheme (TPS) which is administered by the Scottish Public Pensions Agency (SPPA) and the Highland Council Pension fund (HCP) administered by local government.

The net pension liability decreased from £9.8m in 2020/21 to £215k in 2021/22. The movement is a combination of an increase in the fair value of the assets and an increase in the liabilities as a result of demographic changes and financial assumptions. The liability also continues to be affected by the McCloud and Goodwin legal cases.

Hymans Robertson are the College's appointed actuary, who produce a detailed report outlining the estimated liability at the year-end along with the associated disclosure requirements. The pension liability valuation is an area of audit focus due to the material value and significant assumptions used in the calculation of the liability. The valuations are prepared by a reputable actuary using standard methodologies and no significant changes in the membership of the scheme or accrued benefits are expected in the current year. As a result, we have not identified this as a significant risk.

Deloitte response

We have evaluated the results of our audit testing in respect of the pensions testing. Our work in this area included the following:

- Assessing the independence and expertise of the actuary supporting the basis of reliance upon their work;
- Reviewing and challenging the assumptions made by Hymans Robertson;
- Obtaining assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary;
- Assessing the reasonableness of the College's share of the total assets of the scheme with the Pension Fund annual accounts and the Funds estimated asset position at 31 July 2023;
- Reviewing and challenging the calculation of the impact of the McCloud and Goodwin cases on pension liabilities;
- Reviewing the disclosures within the accounts against the FE/HE Statement of Recommended Practice (SORP); and
- Engaging Deloitte's internal pensions experts to assist with the above procedures.

Our work on this area of audit focus is complete. We have raised one unadjusted misstatement in relation to the Goodwin ruling assumptions adopted of £20k. We have also raised a corrected misstatement in relation to the recognition of the pension asset of the LGPS. Further details of these adjustments are included on pages 33 and 34 respectively.

Your control environment and findings

Control deficiencies and areas for management focus

Observation	Deloitte recommendation	Management response and remediation plan
Lack of Valuation Review As a five-year valuation plan is in place, we expect alternative procedures to be performed in non-valuation years. This was not the case for FY23, no control activities in relation to revaluations have been performed by management. We performed our own indexation exercise as part of our testing procedures and this did not indicate material valuation movement year over year.	Alternative procedures should be put in place in non-valuation years e.g. indexation exercises and impairments reviews.	Agreed. For action in FY23-24 by North, West and Hebrides.

Observation	Deloitte recommendation	Management response and remediation plan
Authorisation of Journal Entries Journal entries are not approved before being posted into the general ledger, thereby increasing the risk of errors or fraudulent postings as there is no preventative control. Instead, there is a detective control whereby journals are reviewed outside the system.	We recommend that a preventative control of journal authorisation be put in place within the IT system as best practice. Evidence of preparation and authorisation should be documented against the journal.	Noted, however, the IT system does not support this functionality. Alternative manual controls are in use both before and after input.

Your control environment and findings

Control deficiencies and areas for management focus

Observation	Deloitte recommendation	Management response and remediation plan
Financial statements review We noted through our review of the annual report and financial statements that Government Financial Reporting Manual (FReM) required disclosures had not been originally recorded. We also identified a higher-than-expected number of amendments from the initial draft provided and later adjustments not being posted correctly.	The annual report and financial statements should be reviewed in line with the FReM mandatory disclosures. They should also be reviewed by a second senior finance staff member to ensure segregation of duties and accurate postings have been made.	Agreed, compliance checklists to be completed for FReM disclosures. For action in FY23-24 by North, West and Hebrides.

Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

North Highland College’s Annual Report and Accounts have been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the 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). Following our audit work, we are satisfied that the accounting policies are appropriate.

Liaison with internal audit

The audit team, has completed an assessment of the independence and competence of the internal auditor and reviewed their work and findings. In response to the significant risks identified, no reliance was placed on the work of internal audit and we performed all work ourselves.

We will obtain written representations from the College on matters material to the Annual Report and Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter will be circulated separately.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

Our opinion on the Annual Report and Accounts

Based on the current status of our audit work, and satisfactory completion of the outstanding matters detailed on slide 4, we envisage issuing an unmodified audit opinion.

Going concern

At the time of writing this report, we have not identified a material uncertainty related to going concern and will report that we concur with management's use of the going concern basis of accounting.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is more relevant to the assessment that the continued existence of a particular body.

Emphasis of matter and other matter paragraphs

At the time of writing this report, there are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the Annual Accounts and the audit work performance and to ensure that they are fair, balanced and reasonable.

Opinion on regularity

At the time of writing this report, we have no matters to bring to the attention of the Committee in relation to expenditure and income in the Annual Report and Account not being incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Your Annual Report and Accounts

We are required to provide an opinion on the auditable parts of the Remuneration and Staff report, the Annual Governance Statement and whether the Performance Report is consistent with the disclosures in the accounts.

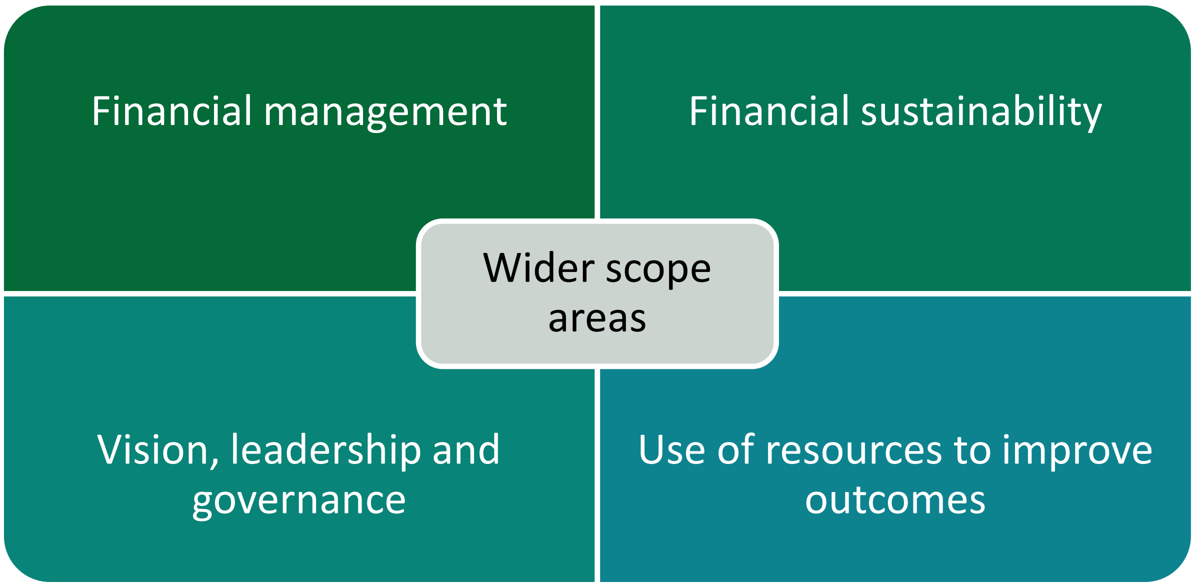
	Requirement	Deloitte response
The Performance Report	The report outlines the College's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by the College.	We have assessed whether the Performance Report has been prepared in accordance with the Accounts Direction. We have also read the Performance Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit and is not otherwise misleading.
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement and the remuneration and staff report.	We have assessed whether the information given in the Annual Governance Statement is consistent with the Annual Report and Accounts and has been prepared in accordance with the accounts direction. No exceptions noted. We have also read the Accountability Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit and is not otherwise misleading. We have also audited the auditable parts of the Remuneration and Staff Report and have noted that it has been prepared in accordance with the FReM.

Wider scope audit

Wider scope requirements

Overview

As set out in our audit plan, Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks in the following areas.



In its planning guidance, Audit Scotland has also highlighted that climate change is also a national or sectoral risk that the Auditor General and Accounts Commission wish auditors to consider at all bodies during the 2022/23 audits

Our audit work has considered how the College is addressing these and our conclusions are set out within this report, with the report structured in accordance with the four dimensions.

Wider scope requirements (continued)

Financial management

Was financial balance achieved (or if before end of financial year is it expected to be achieved)?

Is there sound budgetary processes in place?

Is the control environment and internal controls operating effectively?

Financial Management

Significant risks identified in Audit Plan

The College's finance team has faced ongoing resourcing challenges. Staffing changes pose a risk to the continued effectiveness of the finance function. The College has merged with West Highland and Lews Castle Colleges effective 1st August 2023. The new merged College has recruited a new Finance Director and Financial Controller during the year.

Current year financial performance

The College has faced significant financial challenges during 2022/23, which are projected to continue across future years in the new merged college. From a financial management perspective, we note that the final outturn position was significantly different to the 2022/23 budget set at the beginning of the year.

The budgeted adjusted operating position for North Highland College in 2022/23 was an adjusted operating deficit position of £0.420m. This consisted of budgeted adjusted income of £10.86m and budgeted adjusted expenditure of £11.2m. The final outturn position achieved was an adjusted operating deficit of £0.767m.

The Board members regularly review progress against budget throughout the year, with quarterly reporting to the Board and the Finance Committee. From review of the reporting throughout the year, reporting could be improved by providing a summarised table showing the overall position of the College including comparison against the original budget set. The Committee reports reviewed relied heavily on narrative descriptors which is not considered best practice.

Financial management (continued)

Finance team structure

The College has merged with West Highland and Lews Castle Colleges effective 1st August 2023. As a result of the merger, the finance team has experienced changes in staff during the year with the recruitment of a new Director of Finance and Financial Controller.

We have noted several findings in our substantive testing because of errors in financial accounting and the absence of effective review controls. We believe there has been historic issues with capacity and appropriate knowledge and experience within the finance team.

Internal controls and internal audit

The Board has financial regulations in place which are available to all staff.

The appointed Internal Auditors have an independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

Deloitte view – financial management

We have not noted any issues with the budgetary processes at the College. Management should consider implementing additional review controls to reduce the risk of errors within financial reporting.

Financial Sustainability

Have any short-term financial challenges been identified and addressed through a financial recovery plan?

How appropriate are the arrangements put in place to address any identified funding gaps?

Are there plans in place to support how efficiency targets are to be met?

Financial Sustainability

Key risk identified

The financial environment in which North Highland College operates is challenging, with the impact of declining student numbers, inflationary pressures and national pay negotiations increasing this challenge. Financial sustainability was reported as one of the most significant risks faced by the College in its 2021/22 Annual Report and Accounts. The latest medium term forecast is reporting an increasing deficit position, with a deficit of £1.7m (13% of expenditure) by 2026/27.

The college has also merged with 2 other colleges effective 1st August 2023 with a view to ensuring the future financial sustainability of the College, however the financial plans for the merged College show a challenging financial outlook with recurring deficits until 2027/28.

There is therefore a significant risk that the robust medium to long term planning arrangements are not in place to ensure that the College can manage its finances sustainably and deliver services effectively.

Plans to address funding gaps

North Highland College has operated with significant financial pressures for some time and a number of steps have already been taken. These have included:

- Revising the curriculum offering
- Voluntary severance schemes
- Streamlining administration and support functions
- Revising the estates strategy
- Funding advances from UHI

The Board has approved the merger plan as the only route currently available to restore financial sustainability in the absence of any significant changes to the operating and funding model.

Wider scope requirements (continued)

Financial Sustainability (continued)

Medium to Long-term financial planning

The College has merged with West Highland and Lews Castle Colleges effective 1st August 2023 with a view to ensuring the future financial sustainability of the College.

A budget for the merged college was drafted in July 2024 which showed a budgeted adjusted operating deficit of £4.2m for 2023/24 and forecasted adjusted operating deficits of £1.8m for 2024/25 and £0.7m for 2025/26.

The future forecasted positions are using assumptions of funding which are not yet known at the stage of preparation, but they do demonstrate that the College is expecting extreme challenges to become financially sustainable.

Deloitte view – financial sustainability

North Highland College has merged with West Highland and Lews Castle Colleges effective 1st August 2023 with a view to ensuring the future financial sustainability of the College. The new merged entity is facing financial sustainability challenges, specifically in relation to flat funding and rising staff costs.

The merged college must deliver savings plans to achieve financial sustainability.

3.21 Wider scope requirements (continued)

Vision, leadership and governance

Are the scrutiny and governance arrangements effective?

Is leadership and decision making effective?

Is there transparent reporting of financial and performance information?

Vision, leadership and governance

Significant risks identified in Audit Plan

North Highland College is a party to a merger between three Colleges (UHI North, West and Hebrides). The merger has now been completed as at 1 August 2023. The previous auditor concluded in 2021/22 that the key features of good governance were in place at the College and operating effectively. However, it was noted that limited progress had been made in actioning internal audit recommendations.

Vision and strategy

The College merged with 2 other colleges effective 1st August 2023 with a view to ensuring the future financial sustainability of the College. An initial consultation took place with staff, students, and the public in early 2022. Feedback from the initial consultation supported the development of the full merger proposal and business case, which was originally published on 8 August 2022.

The boards of management at all three colleges met in November 2022 and voted unanimously in favour of merger.

The merger proposal and business case was submitted to the Scottish Government and approved by Graeme Dey MSP, the Scottish Government Minister for Higher Education and Further Education, Jenny Gilruth MSP, Cabinet Secretary for Education and Skills, and ratified through the Scottish Parliament in June 2023.

The business case prepared includes a clear vision that is underpinned by values, behaviours, key strategies and plans. The colleges established Transition Boards and Local Advisory Committees to ensure leadership and governance arrangements are in place throughout the merger process.

Vision, Leadership and Governance (continued)

Governance arrangements

We note from our review of committee meeting minutes and our attendance at Audit & Risk Management Committee meetings that the College demonstrates that the governance arrangements in place are operating effectively.

From our review of meeting minutes throughout the year, we have confirmed that there is an appropriate level of scrutiny and challenge made during meetings.

We note that management make effective use of internal audit at the College. We have evidenced this through our review of internal audit reports and findings during the year, in addition to our attendance at Audit & Risk Management Committee meetings where internal audit present their papers to the committee.

Community engagement

The merger consultation was developed through extensive consultation with staff, learners and all other key stakeholders.

The strategic plan and policies are all published publicly, evidencing the information is accessible to relevant communities.

Leadership

We note from our review of committee meeting minutes and our attendance at Audit & Risk Management Committee meetings that the leaders of the College are adapting to a changing environment.

From our review of committee minutes and discussion held with key personnel during the year, we note that members and senior managers have a culture of cooperation and working constructively in partnership.

Deloitte view – Vision, leadership and governance

The College had established a transition board to provide scrutiny and challenge for the merger. This transition board was implemented up until the merger effective date. The board has demonstrated leadership by working collaboratively to adapt to a changing environment.

Wider scope requirements (continued)

Use of Resources to Improve Outcomes

Can the body demonstrate that there is a clear link between money spent and outputs and the outcomes delivered?

Are outcomes improving based on the trend within the organisation and relative to pace of change in comparable organisations?

Does the audited body provide information about how services are improving?

Is the pace of improvement appropriate to the risk and challenges facing the body?

Risks identified in Audit Plan

As discussed under financial sustainability, there is a significant risk that the College does not have plans in place to manage its finances sustainably. Linked to this, there is a risk that performance management systems are not sufficient to demonstrate how resources are being directed to improve outcomes.

Service reviews

Effective 1 August 2023, North Highland College merged with Lews Castle College and West Highland College to create UHI North West and Hebrides. A lengthy consultation process was run that included input from various stakeholders and Government. Following unanimous approval, the colleges set up transition boards for each of the legacy colleges so that appropriate governance arrangement were in place.

The merger was proposed to achieve economies of scale and ultimately to deliver better financial and operational results for the colleges. We note that as part of the UHI wide curriculum review, changes may be brought in to improve on their financial position if necessary.

Student recruitment and retention

One of the key KPI's in place at the College is in relation to student recruitment. This is monitored and reported to the College Board of management. We note that the key metrics are HE and FE student recruitment. In 2022/23, the College delivered a total of 11,838 FE credits against a target of 12,400 (95%). North Highland College delivered a total full-time equivalent (FTE) HE students of 360 FTE against a target of 380 FTE, equivalent to 95% of the target.

There is an acknowledgement of the lower than budget HE and FE activity in the year and the College has plans in place to improve upon this going forward. A curriculum review is due to take place in order to improve on these targets.

Deloitte view – Use of resources to improve outcomes

North Highland College is going through a period of financial challenge. Difficult decisions remain to put the merged college on a financially sustainable footing while providing best value and protecting education. User needs have been considered whilst cost savings have also been considered. The focus remains improving the finances of the merged college whilst also ensuring the needs of both staff, present and future students are met.

Climate change

Risks identified in Audit Plan

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impact of climate change.

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work. For the 2022/23 audit, we have provided responses to a series of questions supplied by Audit Scotland to gather basic information on the arrangements for responding to climate change in each body. These are summarised below.

Deloitte view – Climate change

As a relatively small sized organisation, the opportunities for emissions reductions are limited. The College reports basic carbon data in the annual report but the impact on the financial statements is minimal given the size of the organisation.

The College has identified opportunities to progress the Net Zero Agenda across the new merged college and plans were included as part of the merger business case and proposal. We recommend that these targets are incorporated into a wider Sustainability Strategy with key performance indicators that are reported to the College Board on a timely basis

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit & Risk Management Committee and the College discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the Annual Report and Accounts.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for the College, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the College.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Cardiff | 25 February 2025

Sector developments

Scotland's Colleges 2023

Audit Scotland Briefing Paper

Background and overview

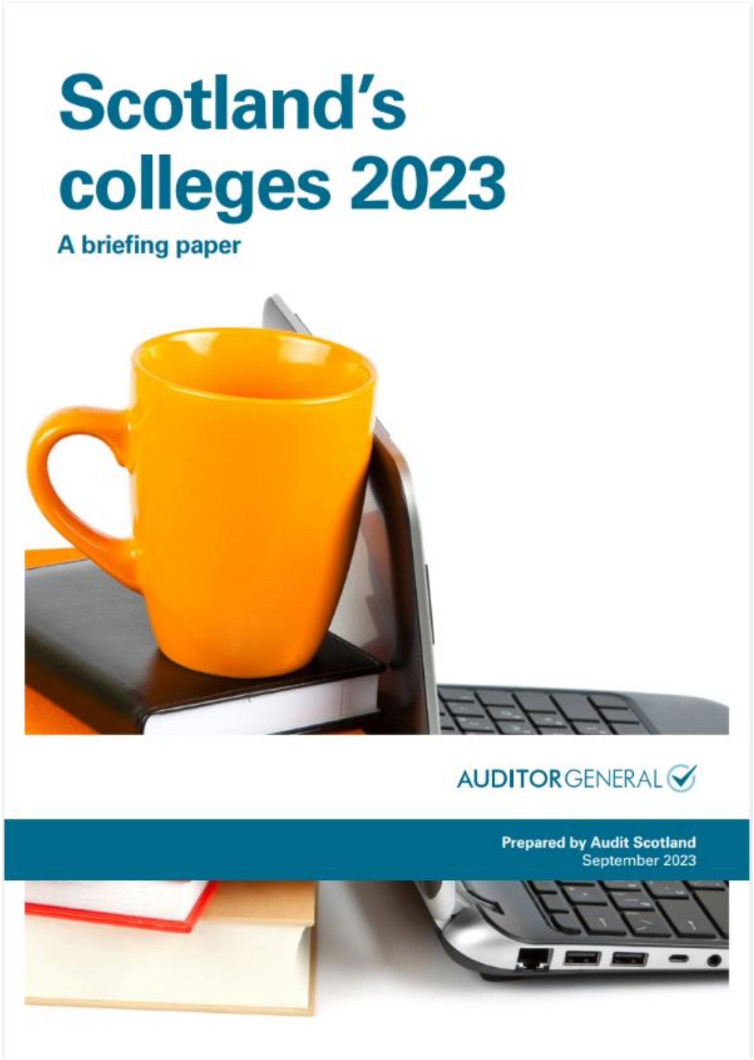
Scotland's Colleges offer academic and vocational courses to develop people's skills and knowledge for work, continued study or general interest. The Scottish Government has a central role in setting policy and funding the college sector.

Key Findings:

1. Scotland's colleges are vital to learners and local communities. Risks to the college sector's financial sustainability have increased since we reported in 2022. Rising staffing costs are colleges' biggest financial pressure.

2. The Scottish Government's funding for the sector has reduced by 8.5% in real terms between 2021/22 and 2023/24, while the sector's costs have increased. Effective, affordable workforce planning is now a greater than ever priority and challenge for colleges.

3. Significant changes to how the college sector operates have been recommended by recent reviews. However, the Scottish Government and the Scottish Funding Council urgently need to build on their ongoing work to help colleges plan for change now, and make best use of available funding so that they are sustainable for the future.



Appendices

Audit adjustments

Uncorrected misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

2022/23 Uncorrected misstatements		Debit/(credit) OCI £'000	Debit/(credit) in net assets £'000	Debit/(credit) prior year reserves £'000	Debit/(credit) Profit & Loss £'000	If applicable, control deficiency identified
Misstatements identified in current year						
Deferred income	[1]		(131)		131	N/A
Other payables – historic error	[2]		65	(65)		N/A
Post year-end invoices	[3]		(14)		14	N/A
Goodwin ruling	[4]		(20)		20	N/A
Total			**(100)**	**(65)**	**165**	

[1] Deferred income: The deferred income for the ERI1 project was incorrectly estimated as £70k and not adjusted at year end. £146k should have been deferred. Therefore, an adjustment of £76k has been raised. We note the total extrapolated adjustment raised is £131k.

[2] Other payables: Included within the other payables balance is a historic error in relation to potential funding clawbacks. The total error is £65k.

[3] Post year-end invoices: An invoice selected as part of our post year-end invoice testing should have been accrued in FY23. This was accounted for as an expense in FY24. The error noted was £6k and the extrapolated error was £14k as noted above.

[4] Goodwin ruling: No allowance has been made in relation to the Goodwin case in the FY23 pension liability value. In our view an allowance should be made, as a past service cost. Based on available information, we believe the cost of this would be £20k. We note that this is a judgemental misstatement based on assumptions used by actuarial specialists.

Audit adjustments (continued)

Corrected misstatements (continued)

2022/23 Corrected misstatements		Debit/(credit) OCI £'000	Debit/(credit) in net assets £'000	Debit/(credit) prior year reserves £'000	Debit/(credit) Profit & Loss £'000	If applicable, control deficiency identified
Misstatements identified in current year						
Job Evaluation Scheme – accrued income	[1]	-	(923)	-	923	N/A
Job Evaluation Scheme – accruals	[1]	-	923	-	-	N/A
Job Evaluation Scheme – provisions	[1]	-	(923)	-	-	N/A
Pension asset recognition	[2]	(3,265)	3,265	-	-	N/A
Total		**(3,265)**	**2,342**	**-**	**923**	

[1] – Included within the 2023/24 Accounts Direction were details of a change in the funding arrangements for the national job evaluation exercise. The updated Accounts Direction instructed colleges to remove the accrued income being recognised in relation to the job evaluation scheme and reclassify the liability from accruals to provisions. This change was communicated in the Accounts Direction issued by the Scottish Funding Council on 18th September 2024. The adjustments posted remove the accrued income previously recognised of £923k and reclassify the liability from accruals to provisions. Given the 2022/23 accounts had not been signed by the time this update was issued, this has been corrected in the 2022/23 accounts.

[2] – Adjustment posted to recognise the pension asset position of the LGPS. The draft annual report and accounts did not include the pension asset. This has been corrected by management in the final draft accounts.

Audit adjustments (continued)

Corrected misstatements (continued)

2021/22 Corrected misstatements		Debit/(credit) OCI £'000	Debit/(credit) in net assets £'000	Debit/(credit) prior year reserves £'000	Debit/(credit) Profit & Loss £'000	If applicable, control deficiency identified
Misstatements identified in current year						
Valuation of property*	[1]		(547)	547		Page 14
Deferred capital grants*	[2]		(217)	217		-
Total			**(764)**	**764**		

[1] – North Highland college had property revaluations performed at 31/07/2017 and 31/07/2022. The college applied component accounting to its properties as of 31/07/2017 valuation. In the 5 years since 31/07/2017, the College has had fixed asset additions to Land and Buildings that totalled £1.7m. These additions were not allocated to specific buildings and the depreciation policy applied was 4 year-straight-line. The NBV of these additions as at the 31/07/2022 valuation date was £547k. These were incorrectly double counted within PPE as at 31 July 2022. The prior year adjustment posted removes this NBV from fixed assets.

[2] – In connection to the adjustment above, the additions included above were made through receipt of capital grants. These capital grants were deferred and recognised over the useful economic life of the assets. As these weren't allocated to the appropriately asset, the balances were posted as annual 'backlog maintenance' and released over a 4-year useful life, rather than the useful life of the asset they relate to. This adjustment posted is to correct the accelerated release of deferred capital grants in previous years.

* Deloitte note that this prior year adjustment is still going through the final stages of review by Deloitte technical team.

Audit adjustments

Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatement have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

Disclosure title	Disclosure description	Amount
Incorrect combination of Other Experience and Return on Assets lines within the pension note:	Deloitte noted in our pension note testing that management have combined the pension movements due to "Other Experience" and "Return on Assets" lines from the actuarial valuation in the Hyman Robertson Report into one line for "return on assets" within the financial statements. Deloitte recommend that management split these lines to ensure consistency with the information included within the actuary report.	£138,000
Modern Apprenticeship cost allocation	Deloitte noted that the modern apprenticeship costs are currently mapped to an “Other Income” GL code rather than being included within expenditure. Deloitte recommend that this amount is reclassified.	£21,000

Our other responsibilities explained

Fraud responsibilities and representations

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the College to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the College to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error and their belief that they have appropriately fulfilled those responsibilities.

Audit work performed:

In our planning we identified the risk of fraud in operating within the funding provided, completeness of income and management override of controls as key audit risks.

During course of our audit, we have had discussions with management and those charged with governance.

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the College and will reconfirm our independence and objectivity to the Audit & Risk Management Committee for the year ending 31 July 2023 in our final report to the Audit & Risk Management Committee.

Fees

The expected fee for 2022/23, as communicated by Audit Scotland in December 2022 is analysed below:

Auditor remuneration	£43,050
Audit Scotland fixed charges:	
• Pooled costs	£(6,310)
• Audit support costs	£1,110
• Sectoral cap adjustment	£(10,100)
Total expected fee	**£27,750**

There are no non-audit fees.

During the 2022/23 audit, we have been required to perform additional procedures relating to the material adjustments required to correct the prior year accounts. These procedures resulted in significant additional Manager and Partner time being required on the audit. Additional time was also required as a result of delays in providing information to us and responding to audit requests. Following the completion of the audit, we will commence conversations with the Finance team regarding additional fees for this work. After agreement of any additional fees with the Finance team we will report back the final position to the Audit Committee.

Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the College's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships

We have no other relationships with the College, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.