



## **UHI North, West and Hebrides**

**Internal Audit**  
**2024-25**

Budgetary & Financial Reporting  
May 2025

### **Overall Conclusion**

Substantial

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The matters raised in this report came to our attention during the course of our audit and are not necessarily a comprehensive statement of all weaknesses that exist or all improvements that might be made.

This report has been prepared solely for UHI North, West and Hebrides's individual use and should not be quoted in whole or in part without prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any third party.

We emphasise that the responsibility for a sound system of internal control rests with management and work performed by internal audit should not be relied upon to identify all system weaknesses that may exist. Neither should internal audit be relied upon to identify all circumstances of fraud or irregularity should there be any although our audit procedures are designed so that any material irregularity has a reasonable probability of discovery. Every sound system of control may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas that are considered to be of greatest risk and significance.

## Overview

### Purpose of review

The purpose of the review was to assess if UHI North, West and Hebrides (the College) has appropriate budgetary and financial reporting arrangements in place and that these have been embedded throughout the whole of the College. This review sought to provide assurance to the Board, via the Audit & Risk Management Committee, that the College's budgetary and financial reporting arrangements are adequate.

This review formed part of the 2024/25 Annual Internal Audit Plan.

### Scope of review

Our objectives for this review were to assess whether:

- | There is appropriate control over the budgetary process within the College, with an appropriate member of management having ultimate responsibility for the process.
- | The College has a set of comprehensive Financial Regulations to ensure that financial matters are managed professionally.
- | Deviations from budget are identified and investigated at an early stage.
- | Budget Holders are adequately trained and receive information regarding their budgets in a timely manner.
- | The budget setting process is effectively linked to the operational planning process.
- | The College's Board and Senior Management receive sufficient reporting of performance against budget and against plans throughout the year to enable informed decision making.

# 1 Executive summary

UHI North, West and Hebrides  
Budgetary & Financial Reporting

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

## Limitation of scope

There was no limitation of scope.

# 1 Executive summary

UHI North, West and Hebrides  
Budgetary & Financial Reporting

## Background

### Merger

On 1 August 2023, UHI North Highland, UHI Outer Hebrides and UHI West Highland merged to form UHI North, West and Hebrides. As a result of this merger the College's budgetary process has been changing year on year to adapt to the new arrangements and circumstances. The 2025/26 budgetary process has still to be fully agreed as those responsible for the process are continuing to adapt it to suit the College post-merger. Further changes are expected to be made to the budgetary process, however, these are still in the process of being agreed.

## 2025/26 Budgetary Process

The 2025/26 budget covers the period 1 August 2025 – 31 July 2026 and we have set out the agreed timeline below:

- | February 2025 – initial high-level budget conversations take place;
- | March 2025 – initial budgets are developed;
- | 22nd April 2025 - budgets are then formalised after the easter break;
- | 22nd & 24th April 2025 – further training is provided to Budget Holders;
- | May 2025 – the budget is provided to the Executive Leadership Team (ELT); and
- | June 2025 – the budget is provided to the Board.

## Policies and Procedures

The College's Financial Regulations include the College's approach to budgeting and the roles and responsibilities of those involved, however, as the process is changing a new budgetary procedure is being created to capture the new process. The new budgetary procedure was in the process of being created during the time of this review. **Please refer to Section 4 – Observations for information.**

## Budgetary Deviations

There are currently no criteria or deviation thresholds that prescribe action to be taken by Budget Holders or escalation to ELT or the Board. The College is in the process of considering the best approach to budget deviations with a combination of percentages and values expected to be used. **Please refer to Section 3 – Detailed Recommendations for information.**

## Training

The College's Management Accountant provided training, via Microsoft Teams, to Budget Holders on the 22<sup>nd</sup> and 24<sup>th</sup> of April 2025 and Budget Holders were invited to ask any questions following the session. The College plans to provide training to Budget Holders annually. Our survey of Budget Holders found that of 31 responders, two Budget Holders gave the training provided the lowest score when asked to rate the training from one to 10 with an average score of 6.68 across all responders. **Please refer to Section 3 – Detailed Recommendations for information.**

## Budget Holder Information

Budget Holders are provided with monthly reports that are designed to enable them to understand the actual level of income and expenditure against their budget. Members of the Finance Team provide them with these reports as Budget Holders do not have live access to the College's finance system. Our survey found that 16 of the 31 Budget Holders responded unfavourably when asked to rate the level of information provided to them to enable them to monitor their budgets with 12 disagreeing and 4 strongly disagreeing that the level of information provided is sufficient. **Please refer to Section 3 – Detailed Recommendations for information.**

## Management Accounts

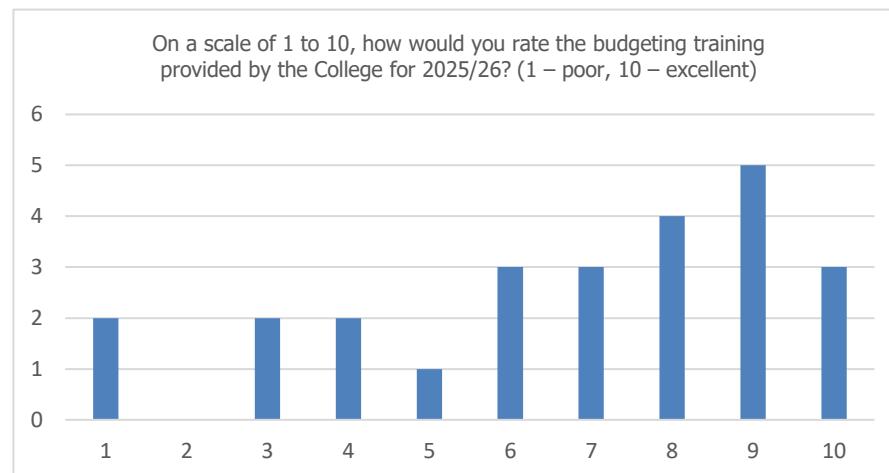
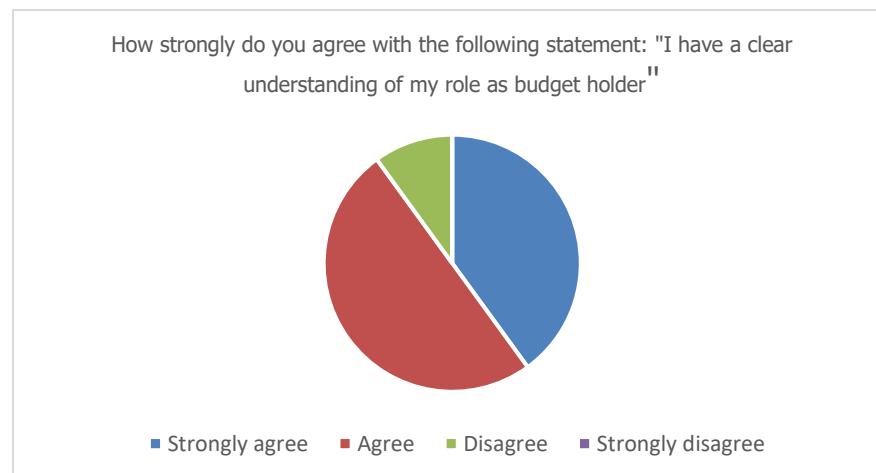
Management Accounts are produced quarterly within the College and are provided to the ELT and the Board as part of the financial updates. Cash flow forecasts are produced by the College and are provided to the Finance and General Purpose Committee as well as the Board.

# 1 Executive summary

## Budget Manager Survey

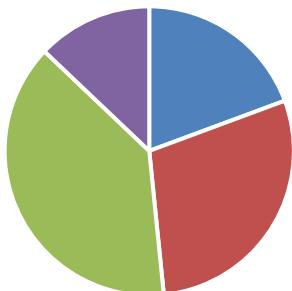
Budget Holders are responsible for the effective control and monitoring of the income and expenditure within the agreed budget. We issued a survey to all Budget Holders to gain feedback on the budget and financial reporting processes in place and received 31 responses, please see summary below:

- | Budget Holders had a clear understanding of their role.
- | Budget Holders rated the budgeting training provided by the College as 6.68/10.
- | Budget Holders did not respond favourably when asked about the level of information provided to enable them to monitor their budget.
- | Budget Holders generally felt supported during the 2025/26 budget process and felt involved in the 2024/25 and 2025/26 budget process.



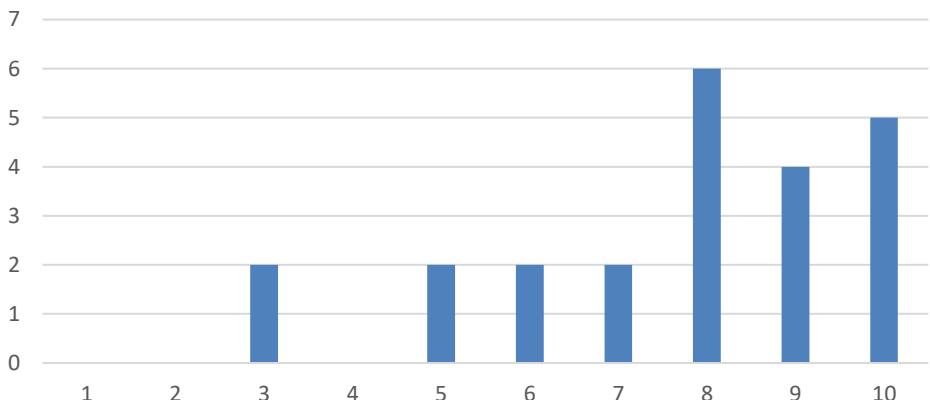
# 1 Executive summary

How strongly do you agree with the following statement: The information provided by finance allows me to sufficiently monitor and track my budget for 2024/25?

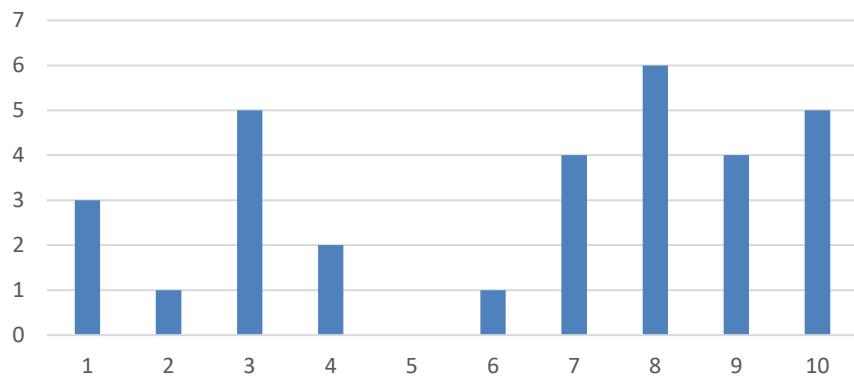


Strongly agree    Agree    Disagree    Strongly disagree

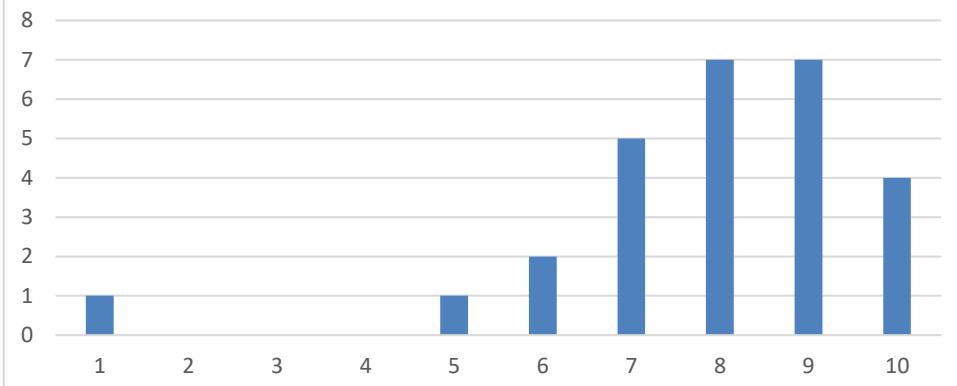
How supported did you feel during the 2025/26 budget process? (1 – poor, 10 – excellent)



On a scale of 1 – 10 how involved were you with the budget process for the financial year 2024/25? (1 – poor, 10 – excellent)



On a scale of 1 – 10 how involved have you been with the budget process for the financial year 2025/26? (1 – poor, 10 – excellent)



## Work Undertaken

Our work undertaken for this review included the following:

**Objective 1. There is appropriate control over the budgetary process within the College, with an appropriate member of management having ultimate responsibility for the process.**

- | We discussed with staff and found that the budgetary process is overseen by the Vice Principal: Resources & Finance (CFO).

**Objective 2. The College has a set of comprehensive Financial Regulations to ensure that financial matters are managed professionally**

- | We reviewed the Financial Regulations to confirm they are in place, however, as the budgetary process is continuously changing the budget process is not fully reflected in the Financial Regulations.
- | We discussed with staff and confirmed that a procedure to capture the budgetary process is being developed at the time of our review.

**Objective 3. Deviations from budget are identified and investigated at an early stage.**

- | We discussed with staff and found that there are currently no defined thresholds that require investigation.

**Objective 4. Budget holders are adequately trained and receive information regarding their budgets in a timely manner.**

- | We discussed with staff and confirmed that training has been provided to Budget Holders ahead of the 2025/26 budget.

**Objective 5. The budget setting process is effectively linked to the operational planning process.**

- | We discussed with staff and confirmed that the budget setting process is linked to the operational planning process.
- | We reviewed the Campus Services and Estates budgets to confirm that the level of planned income to be achieved is set out.

# 1 Executive summary

**Objective 6. The College Board and Senior Management receive sufficient reporting of performance against budget and against plans throughout the year to enable informed decision making.**

- | We reviewed a sample of financial reports to confirm that the Board and the Finance and General Purposes Committee are provided with updates on the budgetary process.

## Conclusion

### Overall conclusion

#### Overall Conclusion: Substantial

Following our review, we can provide a substantial level of assurance regarding the budget setting, monitoring and reporting arrangements in place at the College. This is further highlighted as we have raised several good practice points which are outlined in the Executive Summary. However, we have raised one medium grade recommendation and two low grade recommendations for improvement. We have also raised one observation for consideration. **Please refer to Section 3 – Detailed Recommendations and Section 4 Observations for further information.**

### Summary of recommendations

Grading of recommendations				
	High	Medium	Low	Total
Budgetary & Financial Reporting	0	1	2	3

As can be seen from the above table there were no recommendations made which we have given a grading of high.

# 1 Executive summary

## Areas of good practice

**The following is a list of areas where the College is operating effectively and following good practice.**

1.	Our review confirmed that budgetary updates in the form of detailed Management Accounts were provided to the Board (10 September 2024, 11 December 2024, 26 March 2025) and the Finance and General Purpose Committee (21 August 2024, 21 November 2024 and 5 March 2025). These updates enabled the Board and the Finance and General Purpose Committee to compare actual spend with budgeted spend and therefore helped to enable informed decision making.
2.	Budgets are created for areas that oversee the College's non-grant income i.e. the cafeteria and room hire. Income is based on set criteria, based on past experience, gross margins and known factors which is then used to populate budgets.
3.	The Budgetary process is led by the Vice Principal: Resources & Enterprise, who is responsible for overseeing the budget and updating the College's Executive Leadership Team. They are supported by the College's Head of Finance and Management Accountant.
4.	Our review confirmed that the College was in the process of finalising the 2025/26 budget, having produced the yearly budgets for its curriculum areas and having provided training to its Budget Holders.
5.	Within our survey issued to Budget Holders 90% responded favourably when asked if they have a clear understanding of their role as a Budget Holder.
6.	When asked to score the support provided from 1-10 during the 2025/26 budget process, Budget Holders gave the College an average score of 7.92.

## 2 Benchmarking

We include for your reference comparative benchmarking data of the number and ranking of recommendations made for audits of a similar nature in the most recently finished internal audit year.

### Budgetary & Financial Reporting

Benchmarking				
	High	Medium	Low	Total
Average number of recommendations in similar audits	0	0	1	1
Number of recommendations at UHI North, West and Hebrides	0	1	2	3

From the table above it can be seen that the College has a lower number of recommendations compared to those colleges it has been benchmarked against.

### 3 Detailed recommendations

Information to Budget Holders			
Ref.	Finding and Risk	Grade	Recommendation
1.	<p>To enable oversight, Budget Holders should be provided with regular and reliable information on budgetary spend.</p> <p>Our survey of Budget Holders asked respondents to rate from 1 (low) to 10 (high) <i>'how strongly do you agree with the following statement: The information provided by finance allows me to sufficiently monitor and track my budget for 2024/25?'</i> with the following results:</p> <ul style="list-style-type: none"><li>— Strongly disagree: 4;</li><li>— Disagree: 12;</li><li>— Agree: 9; and</li><li>— Strongly agree: 6.</li></ul> <p>Root cause analysis identified that the lower scores were a result of Budget Holders not having live access to the finance system, nor the system having the functionality to produce reports for Budget Holders.</p> <p>There is the risk that Budget Holders may not be aware of levels of spend, as the information</p>	<b>Medium</b>	<p>We recommend that the College contact their Budget Holders to understand what changes can be made to the information that they are provided and that the type and frequency of information provided to Budget Holders is considered.</p>

### 3 Detailed recommendations

	they have is insufficient to enable oversight, which could lead to budgets not being achieved.		
Management response			Responsibility and implementation date
<p>Management accepts this recommendation</p> <p>The first half of 2024-25 saw considerable work still ongoing to implement the merger and it is acknowledged that the frequency and level of detail provided to budget holders was not of the desired standard.</p> <p>However, since February, with significant progress having been made on key merger milestones and the commitment of additional resource, reporting to budget holders has moved forward significantly since February, with the availability of better budget information, supported by more detailed reporting and one to one meetings with individual budget holders.</p> <p>A question was included in the budget holder survey to seek to track progress in this area, with responses sought to the question 'how involved were you in the budget process'. This was repeated for 2024-25 and 2025-26.</p> <p>Of the 31 responses to the 2024-25 question 11 replies gave a rating of 5 or below, whereas on repeating the question for 2025-26, of the 27 responses only 2 gave a rating of 5 or below.</p>			<p><i>Responsible Officer:</i> Kevin Mallett Head of Finance</p> <p><i>Implementation Date:</i> 31<sup>st</sup> March 2026</p>

### 3 Detailed recommendations

<p>The Finance team will build on this engagement during 2025-26, with a structured process of engagement that is linked to both the quarterly management accounts and the annual budget cycles.</p> <p>1) Issue monthly budget monitoring reports to each budget holder</p> <p>2) Hold a quarterly one to one meeting with each budget holder, these timed to take place after publication of the relevant quarterly management accounts</p> <p>3) In-between the quarterly meetings there will be additional meetings with individual budget holders should any significant matters arise</p> <p>4) A more comprehensive half year review, which will also look forward to the commencement of the following year's budget cycle.</p>	<p>Monthly</p> <p>November, February, May, August</p> <p>February</p>
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### 3 Detailed recommendations

Thresholds			
Ref.	Finding and Risk	Grade	Recommendation
2.	<p>Defined thresholds for budget deviations enable significant deviations to be highlighted and addressed in a timely manner.</p> <p>Our review found that there are no thresholds which set out what are acceptable and unacceptable budget deviation and the reporting requirements.</p> <p>This is due to the budgetary process not yet being fully finalised.</p> <p>There is the risk that deviations may not be addressed in a timely manner, as there are no criteria setting out unacceptable limits, this could lead to budget targets not being met.</p>	<b>Low</b>	<p>We recommend that the College define budget deviation thresholds to further enhance its monitoring arrangements.</p>

### 3 Detailed recommendations

Management response	Responsibility and implementation date
<p>Management accepts this recommendation.</p> <p>For incorporation into future budget policy / guidance the following rule will be included with respect to budget variances:</p> <p><i>That all variances greater than £1,000 or 5% (whichever is lower), whether favourable or unfavourable must be investigated and documented. (Thresholds to be reviewed annually.)</i></p>	<p><i>Responsible Officer:</i> Kevin Mallett Head of Finance</p> <p><i>Implementation Date:</i> 17 September 2025</p>

### 3 Detailed recommendations

Training			
Ref.	Finding and Risk	Grade	Recommendation
3.	<p>Budgetary training should be provided to enable staff members to effectively carry out their role and responsibilities.</p> <p>Our survey provided to Budget Holders found that two of 31 responders gave the lowest possible score when asked '<i>on a scale of 1 to 10, how would you rate the budgeting training provided by the College for 2025/26?</i>' . There was an average score of 6.68 among the 31 responders.</p> <p>This is due to the budgetary process continuing to change due to the College merger in 2023 and Budget Holders not feeling certain that training or their knowledge is reflecting the changes being made.</p> <p>There is the risk that Budget Holders may not understand their responsibilities, as they have not had sufficient training on all their areas, which could lead to budgets not being managed in an effective manner.</p>	<b>Low</b>	We recommend that the College contacts Budget Holders to understand where they feel improvements could be made to training and seeks to provide further training that addresses their needs.

### 3 Detailed recommendations

Management response	Responsibility and implementation date
<p>Management accepts this recommendation.</p> <p>Training was provided to budget holders in advance of work to prepare the 2025-26 budget, however it is acknowledged that many of the budget holders, particularly curriculum managers, were also heavily engaged at the time in other planning and strategic work and the timeline for providing training and completion of the draft budgets was very tight. This may have impacted on the effectiveness of the training provided. For the 2026-27 budget process we will set out a training programme for all budget holders well in advance of budget submission deadlines.</p> <p>A question was included in the budget holder survey that particularly sought responses on this subject. Of the 25 responses returned to the question 'how would you rate the budget training' 18 replies gave a rating of 6 or above.</p> <p>Training will be provided to budget holders in advance of the commencement of the 2026-27 budget cycle</p>	<p><i>Responsible Officer:</i> Kevin Mallett Head of Finance</p> <p><i>Implementation Date:</i> 28 February 2026</p>

## 4 Observations

### **The following is a list of observations from our review**

1.	<p>The budgetary process is not fully finalised following the College's merger in August 2023 and will be adapted for the coming year. The process used for the 2025/26 budget has a structure in place, however, this differed from the budgetary process used in the previous year and there is expected to be further adjustments made to the process in 2026/27 and onwards. The Budgetary Policy is in the process of being created following the College's merger, this is expected to go for approval to the Board meeting on 18 June 2025.</p>
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# 5 Audit arrangements

UHI North, West and Hebrides  
Budgetary & Financial Reporting

The table below details the actual dates for our fieldwork and the reporting on the audit area under review. The timescales set out below will enable us to present our final report at the next Audit & Risk Management Committee meeting.

Audit stage	Date
Fieldwork start	5 May 2025
Closing meeting	9 May 2025
Draft report issued	15 May 2025
Receipt of management responses	21 May 2025
Final report issued	22 May 2025
Audit & Risk Management Committee	27 May 2025
Number of audit days	8

# 6 Key personnel

UHI North, West and Hebrides  
Budgetary & Financial Reporting

We detail below our staff who undertook the review together with the College staff we spoke to during our review.

<b>Wbg</b>			
Partner	Graham Gillespie	Partner	gg@wbg.co.uk
Director	Peter Clark	Director	pcc@wbg.co.uk
Manager	Scott McCready	Internal Audit Manager	smc@wbg.co.uk
Senior	Colin McNeill	Internal Audit Senior	cmn@wbg.co.uk

<b>UHI North, West and Hebrides</b>			
Key Contacts:	Derek Bond	Vice Principal: Resources & Finance (CFO)	derek.bond.whc@uhi.ac.uk
	Kevin Mallett	Head of Finance	kevin.mallett@uhi.ac.uk
	Emma Sinclair	Management Accountant	Emma.Sinclair@uhi.ac.uk
Wbg appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and co-operation.			



# A Grading structure

UHI North, West and Hebrides  
Budgetary & Financial Reporting

For each area of review, we assign a level of assurance in accordance with the following classification:

<b>Assurance Classification</b>	
Strong	Controls satisfactory, no major weaknesses found, no or only minor recommendations identified.
Substantial	Controls largely satisfactory although some weaknesses identified, recommendations for improvement made.
Weak	Controls unsatisfactory and major systems weaknesses identified that require to be addressed immediately.
No	No or very limited controls in place leaving the system open to significant error or abuse, recommendations made require to be implemented immediately.

# A Grading structure

UHI North, West and Hebrides  
Budgetary & Financial Reporting

For each recommendation, we assign a grading either as High, Medium, or Low priority depending on the degree of risk assessed as outlined below:

Grading	Classification
High	Major weakness that we consider needs to be brought to the attention of the Audit & Risk Management Committee and addressed by Senior Management of the College as a matter of urgency.
Medium	Significant issue or weakness which should be addressed by the College as soon as possible.
Low	Minor issue or weakness reported where management may wish to consider our recommendation.

## Purpose of review

The purpose of the review is to assess if the College has appropriate budgetary and financial reporting arrangements in place and that these have been embedded throughout the whole of the College. This review will seek to provide assurance to the Board, via the Audit & Risk Management Committee, that the College's budgetary and financial reporting arrangements are adequate.

This review forms part of the 2024/25 Annual Internal Audit Plan.

## Scope of review

Our objectives for this review are to assess whether:

- | There is appropriate control over the budgetary process within the College, with an appropriate member of management having ultimate responsibility for the process.
- | The College has a set of comprehensive Financial Regulations to ensure that financial matters are managed professionally.
- | Deviations from budget are identified and investigated at an early stage.
- | Budget Holders are adequately trained and receive information regarding their budgets in a timely manner.
- | The budget setting process is effectively linked to the operational planning process.
- | The College Board and Senior Management receive sufficient reporting of performance against budget and against plans throughout the year to enable informed decision making.

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

## Limitation of scope

There is no limitation of scope.

## Audit approach

Our approach to the review will be:

- | Discussion with relevant management, finance staff and Budget Holders to establish the budgetary and financial control arrangements and their involvement in this process.
- | Evaluating these arrangements to confirm their adequacy and whether they comply with current guidance and good practice.
- | Review of documentation to confirm that policies and procedures are in place and that current arrangements comply with good practice.
- | Appraisal of the adequacy of information provided to senior management for decision making.
- | An overall review of the internal control environment to ensure all relevant controls are evident and being complied with.

## Potential key risks

The potential key risks associated with the area under review are:

- | Budget Holders are inadequately trained and do not receive information regarding their budgets in a timely manner, resulting in an increased risk of bad decision making.
- | There may be no central point of control for the budgetary process within the College.
- | The College does not effectively monitor deviations between budgeted and actual income.

- | The College may not comply with financial regulations and may not consider funding guidelines.
- | The budget setting process may not effectively link to the operational planning process.
- | The Board and Senior Management may not be provided with sufficient reporting of performance against budget and against plans throughout the year.