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College Development Network

# READING SCOTTISH COLLEGE ACCOUNTS

## A SHORT GUIDE FOR BOARD MEMBERS



# INTRODUCTION

College board members are responsible for **ensuring the financial and institutional sustainability** of the College.<sup>1</sup>

A key part of this is the signing off of the **Annual Report and Accounts**. While the detailed preparation and scrutiny of this document is likely to have been delegated to sub-committees such as the Finance and Audit Committees, the ultimate responsibility lies with the board.

The accounts of a public body, such as a college, differ from those of a commercial company because a public body focuses on accountability for the use of public funds and delivering services rather than generating profit for shareholders.

The annual report and accounts of a college include a **narrative report** on its activities and performance, details of governance and risk management, and **financial statements** showing

how public funds were received, spent, and safeguarded during the year.

Board members need to be assured that they understand what the accounts are telling them. This means understanding the 'big picture' and being clear on any risks and how they are being managed. It also means being able to explain why they were happy to approve the accounts.

It is often the case that boards include members who have financial specialisms, but all members are equally responsible for monitoring financial performance and signing off the accounts.

This guide is intended to assist board members in understanding what's included in the Annual Report and Accounts, what to look for, and what questions to ask to gain the assurance they need.

<sup>1</sup> [The Code of Good Governance for Scotland's Colleges 2025-26 \(Section C.22\)](#).



# OVERVIEW

Colleges in Scotland are both **public bodies** and **charities**. As such, they do not exist to make a profit, but to provide value for the public money they are given. This can be encapsulated in the key question for board members:

➤ **Is the college delivering its public mission and charitable objects within the funding, controls and expectations set by its funders?**

In practice, a college's "public mission" refers to its overall purpose of serving the public good (such as providing accessible education and skills development), while its "charitable objects" are the specific legally defined aims in its governing documents that set out exactly what educational and community benefits it exists to deliver.

The accounts exist to support accountability, compliance and sustainability, and the board should keep this clearly in view in agreeing budgets, reviewing financial reporting through the year, and signing off the Annual Report and Accounts.

As a public body, a college is accountable to Scottish ministers via its principal funder, the [Scottish Funding Council](#).

As a charity, a college is accountable to the [Office of the Scottish Charity Regulator \(OSCR\)](#) for the fulfilment of its charitable objects.

Financial reporting for colleges is governed by the [Government Financial Reporting Manual \(FReM\)](#), the [Financial Reporting Standards \(FRS 102\)](#) and the [Statement of Recommended Practice \(SORP\) 2019: 'Accounting for Further and Higher Education'](#). Board members don't need to know the technical details of these documents but should be aware that they exist, and understand that they ensure that the college reports fairly and consistently.

Responsibility for monitoring financial compliance lies with [Audit Scotland](#), who produce an annual [report](#) on the financial health of colleges.

## ➤ KEY POINT

The aim of the Annual Report and Accounts is to demonstrate accountability, control and stewardship, not commercial success.

# REVIEWING THE ANNUAL REPORT AND ACCOUNTS

The accounts are divided into two main categories: the **narrative section** and the **financial statements**. Both sections are important to understanding the financial position of the college, with the narrative section telling the story and the financial statements providing the numbers behind the story.

A board member needs to be comfortable that they understand what each section is telling them and what that means for the financial and institutional sustainability of the college.

## Narrative section

### Performance Report

#### **This covers:**

- The college's mission and strategic objectives.
- Delivery of funded activity (e.g. credits, enrolments, business development).
- How funding has enabled the delivery of agreed outcomes.

#### **Look for:**

- Alignment with the college's SFC funding agreement.
- Whether or not credit targets are being met.
- Any commentary on the impact of financial pressures or changing demand.

#### **Ask questions about:**

- Consistent under-delivery of credits. This can reduce future funding and trigger increased scrutiny. Funded activity is the college's core source of income, so an issue in this area can have major consequences.
- Lack of detail in explanation of financial issues such as overspends.
- The mitigations in place for any issues and their sustainability.

### Accountability Report

#### **This covers:**

- Governance and board effectiveness.
- Internal controls and risk management.
- The statement of assurance by the accountable officer. The accountable officer (usually the CEO/Principal) is responsible for ensuring that public funds are used properly, efficiently, and in line with legal, regulatory, and funding requirements.

#### **Look for:**

- Any caveats or qualifications in the statements.
- Any disclosures of challenges or governance weaknesses.
- Any issues raised by internal or external auditors and actions taken.

#### **Ask questions about:**

- Any recurring control issues. Strong governance is a central requirement of OSCR and the SFC Financial Memorandum, which reinforces why issues of control must be taken seriously.
- Any risks identified by audit reports and how they are being addressed.
- Compliance of the board with The Code of Good Governance for Scotland's Colleges.

## Independent Auditor's Report

### The independent (external) auditor provides:

- An audit opinion on the accounts.
- A conclusion on the regularity of expenditure and income.
- An opinion on financial sustainability, value for money and governance.

### Look for:

- Any 'modified' opinions, these are a signal that something is not as it should be or needs more attention.
- An 'emphasis of matter': this highlights key information to aid understanding.
- Recommendations that have not been fully addressed.

The report will refer to the full audit report for the college. This will have been considered by the Audit Committee, but all board members should be familiar with its conclusions and key recommendations.

## Financial Statements

In looking at the financial statements, always read them in conjunction with the notes provided (see below), as these provide more detailed figures, context and explanation for the principal statements, which may not make sense on their own.

## Statement of Comprehensive Income and Expenditure

### This covers:

- Total operating costs.
- Income (expect the majority to be from the SFC main grant).
- Net surplus or deficit for the year.

### Look for:

- Any overspend.
- One-off pressures and/or structural deficits<sup>2</sup>.
- Trends in areas such as additional income or staff costs.
- Trends that are visible across a number of years. This may signal a more significant issue than something that occurs in one year only.

### Ask questions about:

- Is the college breaking even or in deficit? Is this in line with budget projections?
- Is the college in danger of attracting enhanced SFC monitoring or other external processes?
- Is a recovery plan needed (or if in place, effective)?

## Balance Sheet (or Statement of Financial Position)

### Assets

These will be land and buildings (which should be regularly revalued) and items such as equipment and IT assets.

Assets are largely non-liquid and cannot be sold/disposed of without government approval.

Note that asset revaluations can create large variations in the reported position, but do not affect day-to-day operations.

### Liabilities

These will be mainly trade creditors and accruals from one year to the next.

A major element is likely to be pension liabilities, which can be large but do not imply short-term issues although they can affect long-term sustainability. These liabilities appear as large numbers because of accounting rules rather than because of an immediate cash requirement.

Note that negative net assets are common and don't by themselves indicate a serious issue.

2 A structural deficit is an ongoing mismatch between income and expenditure rather than a short term cashflow issue.

## Statement of cashflows

Cashflow is a measurement of the amount of cash that comes into and out of the college in the course of the year.

### Look for:

- Whether the cash from operating activities is in surplus, deficit or breaking even.
- The timing of SFC funding receipts.
- Whether payments to suppliers are delayed.
- Cashflow problems can indicate underlying problems even if the college is breaking even on paper.

### Ask questions about:

- Is the college managing its cashflow effectively?

## Notes to the Financial Statements

These will cover a wide range of items including the following:

### Detailed income from tuition fees and grants

Key sources of income are SFC core grants, student support and bursary funding and commercial income (which will be limited but may be targeted to increase).

The key things to look for in this area are dependency on SFC funding, exposure to changes in policy or the funding formula and the extent that it is possible to grow additional income.

It's important to note that that colleges, as public bodies, have limited financial autonomy. For example, they cannot take out loans or carry a surplus from one year to the next.

Commercial income is a key aspect of college income that supports financial sustainability, but is generally insufficient in and of itself to resolve longer-term structural issues.

### Staff costs

In colleges, staff costs will typically represent 65-75% of income. This is a lot more than you would expect to see in a commercial business but is normal for the education sector.

Staff costs in colleges are high because delivering education is labour intensive and so, in general, a high proportion of expenditure being on staff is not a sign of inefficiency in and of itself.

Look for the impact of pay awards against fluctuations in funding, the cost of overtime, agency staff and the costs of severance or restructuring schemes. It's important for board members to understand major in-year impacts that may be caused by these areas.

If staff costs are rising faster than income over multiple years this will contribute to a structural deficit.

This section will also detail staff numbers and senior staff salaries, indicating trends which board members should be aware of and understand.

There will also be a detailed breakdown of pensions liabilities. As noted above, these are generally not short-term concerns and are ultimately underwritten by the public sector (i.e. the government), but board members should be aware of the assumptions underlying the projections and any shifts in the actuarial valuations<sup>3</sup>.

3 A formal, periodic report prepared by an actuary that assesses the financial health of the scheme by comparing its assets against its liabilities. It estimates the future cost of paying member benefits and determines the employer contribution rates needed to ensure long-term solvency.

## Overall areas to consider

### ➤ Budgetary control

In reading the accounts, board members should bear in mind that:

- Colleges operate within tight spending limits. The **SFC Financial Memorandum** sets out the financial rules colleges must follow.
- In Scottish college finances, **RDEL** (Resource Departmental Expenditure Limit) is the funding allocated for day-to-day running costs such as staff salaries and operating expenses, while **CDEL** (Capital Departmental Expenditure Limit) is the funding provided for long-term investment in assets such as buildings, major equipment, and infrastructure, with the key difference being that RDEL covers ongoing operational spending and CDEL covers capital investment.
- Funding streams from SFC are usually ring-fenced and there is limited flexibility for colleges to re-allocate resources.
- Pay awards (with the exception of the executive team) are largely determined by national bargaining through College Employers Scotland and are therefore outwith the control of ordinary board members.

#### Things to look out for:

- Budget outturn versus allocation: has the college kept to the agreed budget and if not, has the board been kept informed of variances and given approval where necessary?
- Have any variances been clearly identified and explained in the Annual Report and Accounts?
- If contingency funds have been built into the budget, how have they been used?

#### Key point:

- Always keep in mind that, given the status of colleges as public bodies operating within strict controls, an overspend/deficit is a compliance issue as well as a financial one and may result in action from SFC and/or Audit Scotland. Board members need to be assured that SFC is aware of and supportive of any financial challenges.

### ➤ Going concern

If a college is under financial pressure the accounts may include comments on status as a 'going concern<sup>4</sup>,' a formal financial recovery plan or SFC support and/or funding conditions. Board members must be fully aware of these and understand their implications before agreeing to sign off the accounts.

Going concern assessments look ahead 12 months and consider areas such as likely financial pressures, cashflow and funding.

<sup>4</sup> A public organisation is considered a "going concern" if it is able to continue delivering its services. This differs from a private company where the concept relates directly to financial solvency.

# A PRACTICAL CHECKLIST FOR BOARD MEMBERS

**When reviewing your college's accounts, ask:**

1. Am I confident that the information we are being given is complete and reliable?
2. Did the college deliver its funded activity?
3. Did it operate within its allocated budget?
4. Are any financial pressures short or long term?
5. What concerns have been identified by management or auditors?
6. Are financial controls working effectively?
7. Is the board sighted on the key indicators of financial performance and assured that the accounts can be signed off?
8. Do I understand the key financial risks for next year and how they will be managed?

**And finally, to repeat the one key question we asked at the start:**

Is the college delivering its public mission and charitable objects within the funding, controls and expectations set by its funders?

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