OFFICIAL REPORT
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Public Audit Committee

Wednesday 3 September 2025

Session 6

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PUBLIC AUDIT COMMITTEE
22nd Meeting 2025, Session 6

CONVENER

*Richard Leonard (Central Scotland) (Lab)

DEPUTY CONVENER

*Jamie Greene (West Scotland) (LD)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Joe FitzPatrick (Dundee City West) (SNP)
*Graham Simpson (Central Scotland) (Reform)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stephen Boyle (Auditor General for Scotland)
Ian Howse (Deloitte LLP)
Mark MacPherson (Audit Scotland)

CLERK TO THE COMMITTEE

Katrina Venters

LOCATION

The Sir Alexander Fleming Room (CR3)

Scottish Parliament

Public Audit Committee

Wednesday 3 September 2025

[The Convener opened the meeting at 09:30]

Interests

The Convener (Richard Leonard): Good morning, and welcome, everyone, to the 22nd meeting in 2025 of the Public Audit Committee. We are joined by Joe FitzPatrick, whom I very much welcome to the committee. Before we start the business proper, I invite him to declare any relevant interests.

Joe FitzPatrick (Dundee City West) (SNP): Thank you, convener. I am very pleased to join the committee. I have no relevant interests to declare.

The Convener: Thank you very much.

Decision on Taking Business in Private

09:30

The Convener: Under agenda item 2, the committee must decide whether it wants to take agenda items 4, 5 and 6 in private. Do we agree to take those items in private?

Members *indicated agreement.*

“The 2022/23 audit of Lews Castle College”

09:30

The Convener: Agenda item 3, which is consideration of the 2022-23 audit of Lews Castle College, is our principal session this morning. I am pleased to welcome our witnesses. We are joined by the Auditor General for Scotland, Stephen Boyle. Alongside the Auditor General is Mark MacPherson, who is an audit director at Audit Scotland. I am also pleased to welcome Ian Howse, who is the public sector industry lead partner at Deloitte and was directly involved in oversight of the audit.

We have a number of questions to put to you this morning, but, before we get to those, I invite the Auditor General to make a short opening statement.

Stephen Boyle (Auditor General for Scotland): Many thanks, convener. Good morning. I am presenting the report on the 2022-23 audit of Lews Castle College, as you said, under section 22 of the Public Finance and Accountability (Scotland) Act 2000. Deloitte, as the appointed auditor of the college, issued a qualified opinion on the 2022-23 report and financial statements. That was in connection with the valuation of Cnoc Soilleir Ltd, a joint venture that was set up by the college with Ceòlas Uibhist Ltd.

The first financial year in which CSL was consolidated into the college group’s accounts was 2022-23. College management and the appointed auditor agreed that CSL should be included in the accounts on what is known as an equity basis in order to comply with the relevant financial reporting standards.

However, the college and the auditor did not agree on the valuation of the college’s interest in CSL. The auditor determined that the college should recognise its 50 per cent share of the equity in CSL, which amounted to £4.7 million, whereas college management reasoned that, as the funds that are received and the assets that are held by the joint venture are restricted in nature, there was no expectation of financial benefit to the college either in the year under audit or in future years. College management impaired its stake in the joint venture to £1. Despite discussions over several months, college management was unwilling to revise its valuation, and Deloitte concluded that the college’s share of CSL was therefore materially understated in the financial statements and issued a qualified opinion.

As the committee knows, the statutory deadline for the audited accounts to be completed and laid in the Parliament was 30 April 2024. However, those accounts were not signed by the appointed auditor with the qualified opinion until December 2024. Following receipt of the accounts and my decision to prepare a statutory report, colleagues from Audit Scotland have worked with Deloitte and have cleared the report with the college, with the detail that you have before you this morning.

I am sure that the committee will be interested to note that the 2023-24 audit of the report and financial statements for what is now the merged UHI North, West and Hebrides College is on-going and that the appointed auditor and college management are working to find a resolution to the matter that is before you in today’s statutory report.

As ever, Mark MacPherson, Ian Howse and I will do our utmost to answer your questions.

The Convener: Thank you very much. I will begin with the final point that you made. In the past day or so, the committee has received correspondence from Lydia Rohmer, who is the principal and chief executive officer of the merged college, in which she talks about this being a matter of a “technical interpretation” and says that the college had simply taken a “prudent approach”. It did not read to me as though the newly merged college accepted the qualification that had been made by the auditors. Will you comment on that?

Stephen Boyle: We have had sight of the college’s correspondence with the committee in the past day or so. I will bring in Ian Howse in a moment, because he might want to say a bit more about what the application of prudence as an accounting concept means.

On whether this is a technical matter, my overarching assessment of it would be, “Yes, to an extent.” We have before us this morning a difference of opinion between a public body and its appointed auditor, and not only in the accounting standards. As this is a college, there is also other guidance—known as a statement of recommended practice—that allows accounting professionals, auditors and management to interpret financial reporting standards for different sectors. That is not an uncommon feature, and it exists for the college and recognises that there might be a need for more understanding of financial reporting standards.

There is a need to resolve the technical issue and the issue with the application of accounting standards. I hope that those will be resolved. It might be useful for the committee to hear directly from Ian Howse about the likely progress on that.

Ian Howse (Deloitte LLP): There is on-going dialogue with the college about the 2023-24 accounts and how it will value the share in the joint

venture. I think that we are all agreed that there is a jointly controlled entity, so that is a good starting point. We are also all agreed that the sort that Stephen Boyle referred to requires equity accounting as the basis for consolidation of an interest in that jointly controlled entity.

It is the valuation that is the point of debate. We are working with the college at the moment on its impairment assessment, which financial reporting standard 102 requires it to produce even when undertaking equity accounting. We are looking for evidence from the college to support the valuation that it is putting on its share, and the key point of debate has been where the evidence is that supports its valuation of £1 as opposed to the valuation that is in a set of signed financial statements.

When I trained—which, as you can see from the colour of my hair, was a long time ago—prudence was a concept and a sort of standard. However, when financial reporting standards were updated, prudence was built into those standards. Therefore, by complying with the standards you are, in effect, applying the principle of prudence. An overlay of additional prudence is not necessary, because if you comply with the standards and the statement of recommended practice, you should be applying prudence to your accounting.

The Convener: The audit was carried out by Deloitte on behalf of Audit Scotland, and the report that we have before us is an Audit Scotland section 22 report. Therefore, can you be clear, Auditor General: do you agree with Mr Howse's interpretation of the rules and regulations and the accountancy practices?

Stephen Boyle: You are right. This is a section 22 report from me, as the Auditor General for Scotland. I appointed Deloitte as the auditor of Lews Castle College for the five-year period commencing 2022-23.

I draw my conclusions from Deloitte's annual audit report, which sets out in detail how it has discharged the responsibilities that I ask of appointed auditors of bodies. I ask them to draw conclusions on the audit opinion—Deloitte has issued a qualified opinion—and on the basis of the application of a wider scope in public audit in Scotland. So, Deloitte's annual audit report also sets out its views on financial management, financial sustainability, governance, leadership, best value and so forth in public bodies.

The key point, which Ian Howse referred to, is that although it might be a technical matter, Deloitte's view was clear that it was not presented with sufficient technical evidence to justify the college's position. We clearly have a disagreement in accounting opinion, but the college's absence of a detailed technical analysis to support its opinion is the real story of today's report. There was insufficient evidence to justify an alternative approach being taken. It is not unusual for disagreements to arise between auditors and accountants; what is more unusual is what you have before you today, which is a case of an organisation being very clear in its view but not providing sufficient evidence to justify it.

The Convener: Thank you. There is another dimension to that, which you mentioned in your opening statement. The issue is about laying an audit report before the Parliament, so it is about parliamentary and public accountability of the public institution.

You have told us that the audit is for the financial year 2022-23. The deadline for the report being placed before the Parliament was 30 April 2024, but it was not signed off and placed before the Parliament until December 2024, which was eight months later. Could you run through the causes for such an extensive delay? It strikes at the heart of accountability.

Stephen Boyle: Absolutely. I share your concern about the need for timely financial reporting by public bodies. The deadlines exist for a very good reason. Once the Parliament has voted on how the budget should be spent, the information should be presented to the Parliament in good time and order.

I will bring in Ian Howse to set out some of the chronology of the audit's duration. The fact that there was a material disagreement consumed time. Auditing standards require an auditor to do what they can to find sufficient evidence to avoid a qualification on a set of accounts. They have to consider any alternative sources and procedures that they can undertake in order to not get a qualification, which is still a very unusual set of circumstances. It might be useful to hear directly from Ian Howse first; then I will be happy to come back in.

Ian Howse: The audit had a number of issues, of which the delay was the largest and most significant. As you can imagine, there was a lot of correspondence and there were a lot of meetings between us and the college to discuss the facts in this circumstance. I had to take advice from my technical colleagues to ensure that I was comfortable with the opinion and the accounting that I was proposing. Indeed, considering all the aspects and angles of the accounting in relation to the issue was a process that took them time.

The accounts also had a number of issues in relation to prior periods and prior period adjustments, some of which were identified by the college, not solely by us. We worked together to resolve those issues, but, in the absence of

evidence to support the £1 valuation, we concluded that public accountability was best served by a qualified opinion, so that there was at least an opinion on the other aspects of the accounts that people were able to rely on.

The Convener: Do you want to add to that, Auditor General?

Stephen Boyle: I will bring in Mark MacPherson to set out the collation process of the status report and our consideration of Deloitte's views in the annual report. The committee will be familiar with the fact that, in preparing any report, Audit Scotland goes through a structured clearance process in which public bodies have an opportunity to give feedback on factual accuracy and so on.

Mark MacPherson (Audit Scotland): I cannot offer anything more than what Ian Howse has already offered on the first period and the delay in preparing the accounts. Equally, on our side, when we prepare a statutory report on behalf of the Auditor General, we need to ensure that the information is there to allow us to make the statements. We had some engagement with Deloitte and the college itself in order to prepare the report. As the Auditor General said, the college was given an opportunity to comment and clear the report as part of our normal processes. That obviously extended over time and took us into the summer period, which is why you have the report now.

The Convener: Okay. Thank you. Before I bring in Colin Beattie, the deputy convener wants to ask a quick supplementary question.

09:45

Jamie Greene (West Scotland) (LD): I will ask my main questions later, but this one relates to what Mr MacPherson just said.

I assume that you engaged with the college or the now merged entity ahead of producing the section 22 report. Why is none of the content of the letter that we received yesterday in the report? Is it because the information was not provided to you or because it was provided but you chose not to include it?

Mark MacPherson: I do not think that what is in the paper from the college adds greatly to what we already knew—I think that most of it is reflected to some degree in the report. A lot of the commentary from the college relates to the period of the audit. We have already begun to explore the issue of what was needed in order to reach agreement—which, in this case, was not reached—on the audit opinion.

Jamie Greene: It feels as though the letter is the body's right to reply to what you have said. Is that your impression?

Mark MacPherson: All that I can say is that we engaged with the college and we were already aware of most of what is in the paper, if not all of it. It is not new information to us.

Jamie Greene: That is helpful. Thank you.

Stephen Boyle: The overall tone of the correspondence is welcome, as it suggests that a resolution is possible. Ian Howse and his colleagues are working closely to complete the 2024-25 audit, and we hope and expect that the matter will be resolved. It is unhelpful from a public accountability point of view for a public body's accounts to be subject to qualification. We think that there should be space for consensus and understanding, and that, if there is disagreement on an opinion, that should be underpinned by a detailed technical analysis. That feels like a key next step for the college to take.

The Convener: Colin Beattie has some questions on the same theme.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I want to clarify something, Auditor General. The single issue in question aside, are the college's accounts completely clean?

Stephen Boyle: Ian Howse will be able to speak to that in detail, but I think that that is a fair summation. I have brought no matters to Parliament's attention from the 2022-23 audit of Lews Castle College other than the accounting treatment for the joint venture.

I understand fully the committee's breadth of understanding of some of the wider issues that are relevant to Scotland's colleges. We will set out those issues in a bit more detail in our 2025 report on Scotland's colleges, which we will provide to the committee later this year.

As I mentioned in response to the convener, as appointed auditors do, Deloitte has produced an annual audit report that sets out in more detail its views on some of the wider arrangements in the college. Ian Howse might wish to say a bit more about that. However, that is not the purpose of the report that is before the committee today, which is to set out why the financial statements have been subject to an audit qualification.

Ian Howse: I can confirm that the qualification related solely to the valuation of the share in the jointly controlled entity, Cnoc Soilleir Ltd. There was no other qualification relating to the numbers in the financial statements.

With regard to the wider scope of our work, we looked at financial sustainability, and the fact that

Lews Castle College went on to be subject to a merger with other colleges was part of the process of addressing the financial sustainability issues that colleges face. In other words, that was a response to the financial sustainability challenges. That was the only other issue that we brought out.

Colin Beattie: The report sets out that the college and the auditor agreed that the investment in CSL should be accounted for using the equity method, in accordance with financial reporting standard 102. Could you explain in a bit more detail what that means?

Stephen Boyle: Yes, I can. I am happy to start, and then I will bring in Ian Howse—as I will, I suspect, a number of times this morning—to set out how the auditor goes about that level of work.

As ever, the context for financial reporting and audit judgments is not only the 12-month period in question; there is always the history of what went before. As I mentioned in my introductory remarks, we are talking about a joint venture between Lews Castle College and Ceòlas Uibhist Ltd to set up CSL, a community-based organisation in South Uist, to provide Gaelic cultural, music and heritage facilities.

Deloitte can say more about how it picked this up, because 2022-23 was the first year of the five-year audit rotation. Part of the public audit model that we have in Scotland is one of audit rotation, which preserves independence and allows for alternative views. The previous auditors were aware of the issue and had, I understand, come to a shared understanding with the college that the investment in CSL would be accounted for using the equity method. That was designed to recognise the controlling interests in the joint venture between the college and its joint venture partner, which would then flow through into the college's accounts. Under the joint equity method, because of the assets that were in the joint venture, they should be brought on to the balance sheet, or the statement of financial position, of the college.

It is perhaps for Ian to pick up the story here. What we have is a fundamental disagreement about the value of that share and the impairment of it. The college took the view that it should not be £4.7 million, but £1. At the risk of reiterating what is in the report, although disagreements can arise, if the figure is only £1, the auditor's view—which I would share—is that that needs to be underpinned by a comprehensive analysis that sets out why the value of the college's share is not £4.7 million, as is set out in the accounts that are available in Companies House, but the college's preferred figure of £1.

In essence, that is the missing piece of information. That is why there is disagreement. Ultimately, that is the reason for Deloitte's position. Again, Ian will be able to say more about those circumstances.

Ian Howse: I will try to explain some of the complexity of the accounting.

In general, when you are accounting for a share in a jointly controlled entity or a joint venture, you have a choice between fair valuing that interest or accounting for it using the equity method. In the higher education statement of recommended practice, which interprets the financial reporting standards for the sector, it is very clear that you should apply the equity method, and that there is no choice. The same applies to charities through the statement of recommended practice for charities. We were therefore all very clear that the guidance says that the equity method must be applied.

Mr Beattie's question was, "What does that mean?" It means that you reflect your share of the assets and liabilities of the joint venture on your balance sheet, and your share of the profit and loss of the joint venture in your profit and loss statement or, in this case, your statement of comprehensive income. You are saying that you have a shared interest—in this case, a 50 per cent interest—in the company, and that you reflect that in your financial statements.

The standards then refer you to applying an impairment review, which is about asking whether your assets and liabilities are impaired—in other words, is their value correct, or do you believe that the value should be less? There is detailed guidance on how you undertake an impairment review, which I will not go into all the detail of. However, we would be looking for a detailed paper that explains that impairment review and how the college has gone from a valuation of 50 per cent of the assets, in a signed-off statement of financial position by another auditor, to £1. That is what we were lacking: an evidential paper that explained how the college went from one thing to the other, following the quite detailed guidance on how to undertake an impairment review.

I hope that that explains to you what should have happened, what we were missing and why, therefore, we ended up in this position. Again, we all agreed that the expedient thing to do was to qualify the accounts so that—this goes back to the previous question—there was some assurance for the public on all the other numbers that we could give an opinion on.

Colin Beattie: I understand that. What would the implications for the college have been if its profit, surplus or assets had been inflated? Would there have been any positive or negative implications?

Stephen Boyle: The question of what its motivations were is perhaps a question for the college itself; I am somewhat unclear on that. Ian Howse might have a better insight into that. However, as I think that Ian has set out, the college's asset position would have changed by £4.7 million, and there would have been a marginal change to its operating profit from absorbing around £30,000 of the profit that the joint venture had.

What is clear to me is that those circumstances, and the fact that the absorption of the details of the joint venture changed what you might refer to as the college's underlying financial position, could readily have been explained in the college's annual report and accounts. I do not think that you could say that there had been a ready misinterpretation of the college's asset or profit figure, but the issue could have been comfortably explained in the college's own accounts.

Again, that is my reaction to the matter, but Ian Howse might have a better insight.

Ian Howse: I totally agree. As far as the profit and loss statement was concerned, the impact was immaterial; the profit of the joint venture was £20,000 in the year in question, so half of that—£10,000—would have been completely immaterial in the scheme of things.

Clearly, with the balance sheet, we are talking about a much bigger number. That would have been an issue if the college had been seeking to borrow against its balance sheet, and a bank had looked at it and said, "Oh, the college has a certain level of assets." If things have been overstated on the balance sheet, the potential implication is that somebody might have made a different decision. However, although that is material with regard to the balance sheet, would it ultimately have changed a bank's view? That is only for a bank to say, I guess, but that is the potential implication that I could see if the college had been seeking to borrow. Again, though, that sort of thing tends not to be the case in the public sector in the way that it is in the private sector, with bank covenants and everything else.

Colin Beattie: Who in the college would be responsible for ensuring compliance with FRS 102?

Stephen Boyle: Ultimately, it would be the responsibility of the executive and the board of the college. The committee will be familiar with the fact that the accountable officer arrangements in colleges are slightly different, in that they rest with the Scottish Funding Council, but when it comes to the role of the board and the effectiveness of oversight and governance, it is up to the executive, the principal of the college and the board to ensure that their annual report and accounts are compliant not just with FRS 102, but, importantly, with the statement of recommended practice, given the role that it has in this sector.

Colin Beattie: Assuming that there are no issues with governance and so on in the college, I presume that we can assume that the board has taken a judgment on the matter. I guess that the question that I am trying to ask is this: were there any governance issues with the board that might point to a skewed approach?

Stephen Boyle: I absolutely understand the nature of the question, given that the committee regularly considers reports that go beyond the issue presented with regard to a public body's approach to a particular matter of financial standing or financial management to underlying issues of governance and leadership. Mark MacPherson and I absolutely sought to explore that issue with Deloitte, and the committee will hear from Ian Howse on that in a moment. It is important to point out that that is not what the issue in question appears to be about, but I would not want to misrepresent it as simply a technical issue, because it goes slightly broader than that—it is to do with the extent to which appropriate evidence was presented and how a community asset was recorded in a public body's annual report and accounts.

10:00

On the topic that you asked about, we carefully considered Deloitte's conclusion, in its annual audit report, that it was not highlighting material governance and leadership concerns in the organisation. From that, I take assurance that the issue can and should be resolved and that the new UHI college can move on and deliver, thereby allowing it—we would hope—to draw a line under what feels like an important, but nonetheless distracting, issue.

I will bring in Ian Howse—again, I think that it is important for the committee to hear directly from the auditor.

Ian Howse: Those are not issues that we would have raised. Our annual report covers the issues that we found, and this was the main issue. The board, through the audit committee, was advised on its position by its professional advisers—the director of finance and so on—and it concluded that it would stick with the position that it had come up with.

In some respects, it has adopted almost a philosophical, rather than a technical, position. It is, I suspect, about the board's view of the value of the joint venture to the college as an organisation, rather than necessarily the accounting of it. Nonetheless, the board took the professional advice of its staff and came to a conclusion,

through a proper process—the audit committee considered our report and management's views, and it came to that conclusion.

I would say that the relationship remains very amicable—there is no problem with the relationship between us and the college. We are working together to resolve the issue at present, and we have shared with the college some examples of the papers that we would expect to see in relation to its impairment review and so on. We are trying to work together to come to a resolution on the matter—we are currently working through that process.

Stephen Boyle: To add to that, a qualification on a set of financial statements is a significant matter. That is really why, having read Deloitte's judgments, and with support from Mark MacPherson and other colleagues from Audit Scotland, looking at the detail of it, I felt that it was appropriate to prepare a statutory report on the conclusion of the audit to highlight to the Public Audit Committee the nature of the disagreement.

As I said, public bodies rarely receive a qualification on their annual report and accounts. It is a key part of assurance to this committee and to Parliament that, where public money is spent, assets are being properly accounted for. There is an omission in that regard, and it is clear that the board of management and the executive within the college have taken a different view. Nonetheless, the fact that the qualification exists, and that Deloitte, as the appointed independent auditors, took a different view, is a matter of public interest.

Colin Beattie: I have one last question. Are you aware of whether the college took any external advice in reaching its position? Did it refer, for example, to the SFC or any outside body?

Stephen Boyle: I will bring in Ian Howse again, to chat through the chronology and understanding. In addition, Mark MacPherson might have more of an understanding of the extent to which the Scottish Funding Council was consulted. I turn to Ian first.

Ian Howse: We were not presented with any paper from an external body, in terms of accounting advice, that contradicted our accounting opinion. I understand that there were conversations with other parts of the sector about their views on the matter; I came into the audit rather towards the end of the process, so that might have happened before I was there.

I cannot be specific with regard to any advice within the sector, but we were certainly not presented with a paper from another professional accounting firm, for instance, that contradicted our view.

Mark MacPherson: I am not aware of any specific advice that was sought from the Scottish Funding Council, but only the college could advise on whether—as you suggest, Mr Beattie—it took any external advice.

The Convener: Okay. Of course, we might pursue some of those lines of inquiry outwith this evidence session.

I invite Graham Simpson to put some questions to you.

Graham Simpson (Central Scotland) (Reform): Auditor General, will you explain in layman's terms why the situation matters?

Stephen Boyle: Of course. To build on my previous comment to Mr Beattie, it matters because the Scottish Parliament does not have full assurance over the assets of a public body.

By its nature, an independent auditor's report uses some technical language, but it is fairly clear from Deloitte's phrasing that there are assets of £4.7 million and that the college's share of that equity is not reflected in Lews Castle College's accounts. That, together with the qualification on a public body's accounts, is rare. I have prepared a number of statutory reports and presented them to the committee. This is an unusual event. It is significant and of public interest. That is why I reached my decision to prepare a statutory report on the 2022-23 audit.

Graham Simpson: What assets are we talking about? There is a building, is there not?

Stephen Boyle: Yes, that is correct. It is a community facility in which the college is a joint venture partner. It provides Gaelic cultural, music and heritage facilities to the community in South Uist. That is the asset that is referred to.

Graham Simpson: Clearly, there is a physical thing—a building—which will be worth something.

Stephen Boyle: Correct.

Graham Simpson: It will not be £1.

Stephen Boyle: Ultimately, the debate is about what the value of the building is and what the college's share is. As the auditor, Deloitte is required not only to audit the figure that is presented but to consider wider sources of evidence, as all auditors are required to do. The evidence is the accounts of the joint venture. As Ian Howes mentioned, they have been audited. They were signed off by a firm of chartered accountants, and the college took a different view on the value of its share of that asset and said that it ought to be £1.

There could be circumstances in which that is the case, such as if the college can argue that there has been an impairment review or that there

is new information. However, as Ian Howes mentioned, we are missing information. There is no detailed technical accounting analysis that supports the number that the college included in its accounts.

Graham Simpson: I have to say that I struggle to see how you could possibly say that a building of that nature was worth £1. What is the evidence that brings the auditors to the conclusion that the share is £4.7 million?

Stephen Boyle: I will bring in Ian Howes, as it might be helpful to hear from him.

Ian Howse: The evidence in this case is that there is a signed set of accounts, audited by Mann Judd Gordon, that sign off the valuation of the building at £6.4 million. That is the cost of building the building. Clearly, its value in an open market might be different from the cost of building it. That is the point in question. It might be that the valuation is somewhere between the £1 and the £6.4 million. You would need a professional valuer to give you a value.

The standards require that you either value it at the higher of the fair value less the cost to sell—in this case, that would be a valuation by a valuer less the cost of sale—or its value in use. You would need to determine the value in use in terms of what it could generate in income and expenditure. We are looking for those two pieces of evidence so that we can see which is the higher. That would give us a more evidence-based assessment of CSL's assets.

Stephen Boyle: I should add that it is not for auditors to determine the value—we are not valuers. However, money has been invested in the assets in question, so auditors need to see evidence. Sometimes valuations are complex, and many public bodies require the expertise of independent valuers to support disclosures in their accounts. Whether we are talking about hospital buildings, roads or community facilities, specialist expertise is sometimes required. Equally, for particularly complex topics, the auditors will source their own expert advice. However, as I said, such information typically needs to be underpinned by detailed supporting evidence.

Graham Simpson: There are two different things going on here. There is the money that a building can generate and the actual value of the building, and they are two separate things.

You mentioned getting in a professional valuer to give a figure for the building. Is the solution not just to bring in a valuer, get them to value the building, then agree on a figure?

Ian Howse: That would certainly be helpful. When coming up with a valuation, the college will need to consider whether it needs that and whether to spend the money that will be needed to bring in a professional valuer to do that, or whether it can come up with a reasonable estimate or valuation that is based on other properties in the area. Auditors will accept an estimation if it is based on evidence and some sort of analysis that allows us to come to a conclusion. It does not necessarily have to be a valuer but it could be a route to a valuation.

The college includes its assets on its statement of financial position at the valuation basis. The company, CSL, includes them at cost. There is therefore a bit of a discrepancy between the two accounting bases and we considered that in terms of the equity accounting. However, because the college takes three years to come up with an initial valuation, the cost and valuation bases are equivalent for the purposes of the accounts.

A valuation might well be a helpful route through this, but it is up to the college to determine the fair value less cost to sell. It could do that through a valuation or by using other estimation techniques.

Graham Simpson: Has that been suggested to the college?

Ian Howse: We are working with the college on how they will come up with a figure. We have provided it with an example of a paper that shows the type of analysis that we would expect to underpin the calculation of what is the higher of the fair value less cost to sell and the value in use. Value in use is a slightly more complicated thing to calculate than a fair value less cost to sale.

Graham Simpson: I think that we can see a solution here. If the college is sensible, we can resolve this. I will leave it there, convener.

The Convener: Joe FitzPatrick, do you have any questions to put?

Joe FitzPatrick: Most of the questions that I was going to ask have been covered, but I just want to probe that final point a little bit further. It seems to be pretty incredible that the college management made the decision to impair a value from £4.7 million down to £1 without some evidence that it can show in its accounts or seeking external financial or legal advice. I guess that the solution for the college seems to be for it to seek some external legal advice and then, as Mr Boyle said, it can draw a line under this and move forward in a way that is best for the institution. I hope that the college is watching and listening to what is being said in this committee meeting.

The Convener: I am quite sure that it is.

I invite the deputy convener to put a series of questions before we finish the evidence session.

Jamie Greene: We could probably end this evidence session now, as we have covered quite a lot of ground, but it has thrown up some interesting philosophical arguments about how public bodies account, and that is what I want to dig into.

When reading the correspondence that we received from the college, I was quite intrigued by the rationale for its decision. I do not really want to talk about that particular example; my interest is more in the rationale that the management used to come to that decision.

Mr Howse, can you comment on the three reasons given for the £1 valuation? It is not that the joint venture is worth £1, because clearly that is not the case—it has been valued at £9.4 million, for a range of reasons. However, the college make three specific points regarding why it came to that conclusion—we can perhaps ask it about that in future.

10:15

I am intrigued by a few things. The first point is that the assets in the joint venture are restricted in nature, which could be interpreted in different ways. The second is that there is no expectation of future economic return. That is, again, a fortune-telling look into the potential value of a joint venture and whether it will make any profit for the partners in it. The third is that the college makes a financial contribution to support the operations—in other words, it requires annual investment to maintain the joint venture.

Are those three points of rationale for coming to a £1 valuation normal factors that you would take into account in considering impairment? They seem quite rational and logical to me.

Ian Howse: First, I would say that the joint venture was set up as a company limited by guarantee, not a company limited by shares, which is what most people would recognise as a company on the stock market. A company limited by guarantee is set up to limit liability, which in this case is limited to £1. That is the liability should the joint venture become insolvent.

It is set up in that way because it is a charity or not-for-profit organisation. It has been set up not to generate a profit or returns but to further the Gaelic language in that part of the world and the cultural impact that it has on society there, which is a really important thing to do. The company is not set up for the purpose of generating profit; it is set up to provide a not-for-profit organisation for the furtherance of those aims, which is a really important factor.

It is true that the college makes a contribution to the running costs. In 2022-23, that was around £21,000, so it is not a huge amount of money. In 2023-24, the figure rose to £47,000. There is an increasing trend in that contribution but, in terms of the overall running of the college, it is not a material amount.

The point about restricted funds refers to the fact that the company is also a charity. As many committee members will be aware, charities have unrestricted and restricted funds. In this case, most of the cash balances in the company are in restricted funds, because they were given for the specific purpose of building the building. Indeed, the cash that sits on the statement of financial position at the moment largely relates to the next phase of the building.

There is an existing building, and there is an aim to further the building with a performance venue, work on which was due to start this month. I am not sure about the exact time or whether all the funding is in place and it is ready to go. However, those funds are held in restricted funds. Even a charity that has a share in another charity with restricted funds would still, on the equity basis, take those funds as part of its statement of financial position. It would still have to maintain those funds as restricted, but they are still funds that exist. Therefore, as part of the equity basis, they would be brought on to the statement of financial position.

Jamie Greene: Right. I guess that I am playing devil's advocate here. You can perhaps see the rationale for the college saying that, as its maximum liability in the venture is £1, it does not want a figure of £4.7 million to be in any way perceived as a potential liability, should the JV fall, for example.

Ian Howse: It is the asset that the college is bringing on to the balance sheet, which is its share of the building and of any cash that exists in there. There is not a liability of £4.7 million, although I suspect that the college's view is that the building could be a liability in future, should it need to continue to run the building and there was no active market for learning and teaching that would enable the full use of the building. That is why I say that there is almost a philosophical point here that goes alongside the accounting.

However, on the accounting, we are very clear that there are assets, and that the college has a share, because it has 50 per cent control of those assets, and that that should be reflected in its balance sheet, subject to an impairment review.

Jamie Greene: Shortly after the accounts were produced, the college merged with a bigger entity. What material difference would it have made had the £4.7 million been recognised rather than the £1? Would it have had any effect on its being able

to merge or on the negotiations on the merger, or would such a consideration have been immaterial?

Ian Howse: I think that that is a view for management to take. It is difficult for me as the auditor to determine how those circumstances would have affected negotiations.

Jamie Greene: In other words, would it have made that bit of the merger more or less valuable to the merged entity?

Ian Howse: I do not believe that it would have done. Again, as I have said, it is for management to make that decision.

Jamie Greene: Auditor General, in paragraph 16 of your report, you refer to "Two further material misstatements" regarding the 2022-23 accounts, which were subsequently corrected. Do you know what those "misstatements" were and why they were in the accounts in the first place?

Stephen Boyle: Yes. The detail of that is set out in Deloitte's annual audit report; Ian Howse can say a bit more about the nature of the misstatements, but I think that they might have been alluded to already.

The college is a member of two defined benefit pension schemes for its employees: the Scottish teachers' pension scheme and the Highland Council pension fund. Ian can say more about this, but it is not always that unusual for pension disclosures to be subject to fluctuation and change once new information becomes available. That is broadly the detail that has been set out by Deloitte in its report, but I will hand over to Ian, if he wants to add anything.

Ian Howse: I would echo those remarks. Pension valuation is always a complex issue, particularly when new cases are brought that give rise to new liabilities, potentially in relation to the past treatment of people.

There was also a failure to value something according to the frequency required by the accounting policies. To be fair, the college's accounting team recognised that that should have been done, and went away and did it. I would characterise that as being really good. The college identified a problem with the previous accounts, and it took corrective action to resolve it and move things forward, but we report that as an adjustment to the draft financial statements that we received.

Jamie Greene: Auditor General, with this merger taking place, are you aware of any other joint ventures within the merged entity where the valuations might be affected by the outcome of this dispute?

Stephen Boyle: No, not yet. That is not something that has been brought to my attention or to the attention of Mark MacPherson through the audit of either the merged UHI college or other entities. As the committee would expect, though, statutory reports generate a lot of interest among the auditors and audited bodies, especially those in the relevant sectors. I am quite sure that the content of today's report will be reflected on across the sector.

Jamie Greene: Indeed, and that leads me to my final question. It might seem as if we are making a lot of fuss over a minor technical point about accounting and auditing, but the fact that you have produced a statutory report is itself unusual, which is why we are dedicating a whole hour of our committee meeting to it. Clearly, there are wider implications for other parts of the further and higher education sector where there are also joint ventures. What we are discussing here is a charitable venture, but many are not; I am aware of a number of colleges that are in financial joint ventures or which have created third-party entities with private companies for, say, apprenticeships, investment in new buildings and assets and so on. There are wider implications particularly for the college sector, which, as you acknowledged earlier, is already under incredible financial stress. Are you aware of any other areas where this could come up as an issue? Might it change the auditing practices relating to joint ventures involving colleges or other public bodies?

Stephen Boyle: You are right. It is an important question. My own reporting has highlighted how necessary it is for public bodies—colleges, in this context—to ensure that they get their arrangements right when they embark on formal legal arrangements with a third party, which might be a charitable set-up or, as I reported recently in relation to another college, a private sector-based organisation. The governance, leadership and clarity of financial arrangements, financial reporting and any obligations must be understood clearly by all the respective parties. I am happy to confirm that, if there are any matters that are not consistent with good practice, we consider them and the need for any public reporting.

Jamie Greene: What would your advice be to those colleges that are interested in this committee session and might be watching and thinking about their own accounting practices and the repercussions of this case?

Stephen Boyle: I hesitate to draw wider conclusions, but where there is a complex disagreement, the resolution is served by high-quality evidence. That is the judgment that we made following receipt of Deloitte's report and its qualification. As Ian Howse mentioned a couple of times, if the college had prepared a detailed technical accounting paper, that would have allowed Deloitte to consider it in the round.

Disagreements happen, but in the vast majority of circumstances, they are resolved by the auditor accepting the proposed accounting treatment or by the public body's accounts being changed. We rarely see a resolution not being reached and it resulting in a qualification and a reduction in assurance to the Parliament. I hope that the Lews Castle College case is a rare event.

Jamie Greene: For the record, I wish the college the very best in its joint venture. It clearly has some admirable aims and ambitions.

The Convener: I will finish with a question that goes back to an earlier point that we discussed, which involved the delay in the laying of the 2022-23 accounts. On further reflection, I note that the letter that we received from Lydia Rohmer, the principal and chief executive of UHI North, West and Hebrides, says that the reason for the delay was, in part,

"a combination of rescheduled audit work and the wider capacity pressures in Scotland's public audit system",

which rather points the finger at you, Auditor General.

Stephen Boyle: Ian Howse might want to say more, but I will give you my interpretation. Audits are profiled, and they all start with the assumption that there will be a high-quality set of unaudited accounts or draft accounts, supported by working papers. Neither Deloitte nor any of the other firms that I appoint, nor the Audit Scotland teams, have a significant amount of contingency that can allow delay. An audit is assumed to last for a number of weeks, which results in a successful conclusion and certification. If a public body misses its slot—I am not drawing particular reference to Lews Castle College, but this is generally how it works—a team will move on. We do not have infinite capacity in the public audit model in Scotland to allow for a delay of a number of weeks.

That situation can result in a public body having to move to a different part of the schedule. Yes, there are constraints and capacity issues, not only in public auditing but across all public bodies, which look to use resources wisely. I reiterate one comment that I made earlier: auditors look to avoid issuing a qualification and look to get additional evidence. Deloitte would have sought out other sources in order to come to a position in which it did not have to issue a qualification. Those were all factors behind the timescale of the audit that we have in front of us today.

The Convener: I return to my earlier point, which is that it is important for the Parliament and for public accountability that accounts and audits are laid before the Parliament timeously. We can perhaps all reflect on why that was not the case in this instance.

Stephen Boyle: I agree, convener. I absolutely share your view of the importance of accounts, together with audited conclusions that provide for independent assurance. Those should be completed thoroughly and, if possible, done in a timely manner.

I assert that some delay might be necessary so that the audit can be completed to a quality standard and so that all the evidence that is required to reach the audit opinion can be considered. However, that does not detract from the opinion that I share with you that the timescale matters. The vast majority of public audits in Scotland are completed to the timescales that are agreed with the Parliament.

The Convener: Thank you very much indeed. On that note, I thank our witnesses—Ian Howse, Mark MacPherson and you, Auditor General—for providing evidence and answering the questions that we have posed. I now formally move this morning's meeting into private session.

10:30

Meeting continued in private until 11:10.

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