



## UHI Perth

**Planning report to the Audit Committee on the 2023/24 audit  
Issued on 04 October 2024 for the meeting on 09 October 2024**

# Introduction

## The key messages in this report

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

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

I have pleasure in presenting our planning report to the Audit Committee (“the Committee”) of UHI Perth (“the College”) for the 2023/24 audit. I would like to draw your attention to the key messages of this paper.

### **Audit plan**

We have updated our understanding of the College including discussions with management and review of relevant documentation from across the College.

Based on these procedures, we have developed this plan in collaboration with the College to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the College.

### **Key risks**

We have taken an initial view as to the significant audit risks the College faces. These are presented as a summary dashboard on page [12](#).

### **Wider scope requirements**

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

In carrying out our risk assessment, we have considered the arrangements in place for each area, building on any findings and conclusions from the prior year audit, planning guidance from Audit Scotland and developments within the organisation during the year. Our wider scope significant risks are presented on pages [12 to 16](#).

# Introduction (continued)

## The key messages in this report (continued)

### **Our commitment to quality**

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

### **Added value**

Our aim is to add value to the College through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the College promote improved standards of governance, better management and decision making and more effective use of resources.

We have also shared technical and sector updates on pages [26](#) to [28](#) of this plan.

**Nicola Wright**  
**Partner**

# Responsibilities of the Audit Committee

## Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Implement a policy on the engagement of the external auditor to supply non-audit services.

Oversight of external audit

Integrity of reporting

Internal controls and risks

Oversight of internal audit

Whistle blowing and fraud

- Review the internal control and risk management systems (unless expressly addressed by separate Board risk committee).
- Explain what actions have been, or are being, taken to remedy any significant failings or weaknesses.

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns raised by staff in connection with improprieties.

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, and level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested by the College, provide advice in respect of the fair, balanced and understandable statement.

- Consider annually whether the scope of the internal audit programme is adequate.
- Monitor and review the effectiveness of the internal audit activities.

# Our audit explained

## What we consider when we plan the audit

### Responsibilities of management

We expect management and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with deficiencies identified on a timely basis.

Auditing standards require us to only accept or continue with an audit engagement when the preconditions for an audit are present. These preconditions include obtaining the agreement of management and those charged with governance that they acknowledge and understand their responsibilities for, amongst other things, internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Financial Reporting Council (FRC) guidance on good practice

The FRC, in its Review of Governance Reporting issued in November 2023, has identified good practice as including a clear statement describing the review undertaken, process and reporting of the outcome of the review of the effectiveness of risk management and internal control systems and clarity on what should be reported from the outcome of the review. This would include whether any weaknesses or inefficiencies were identified and explanations of what actions the Board has taken, or will take, to remedy these.

### Responsibilities of the Audit Committee

As explained further in the Responsibilities of the Audit Committee slide on page 4, the Audit Committee is responsible for:

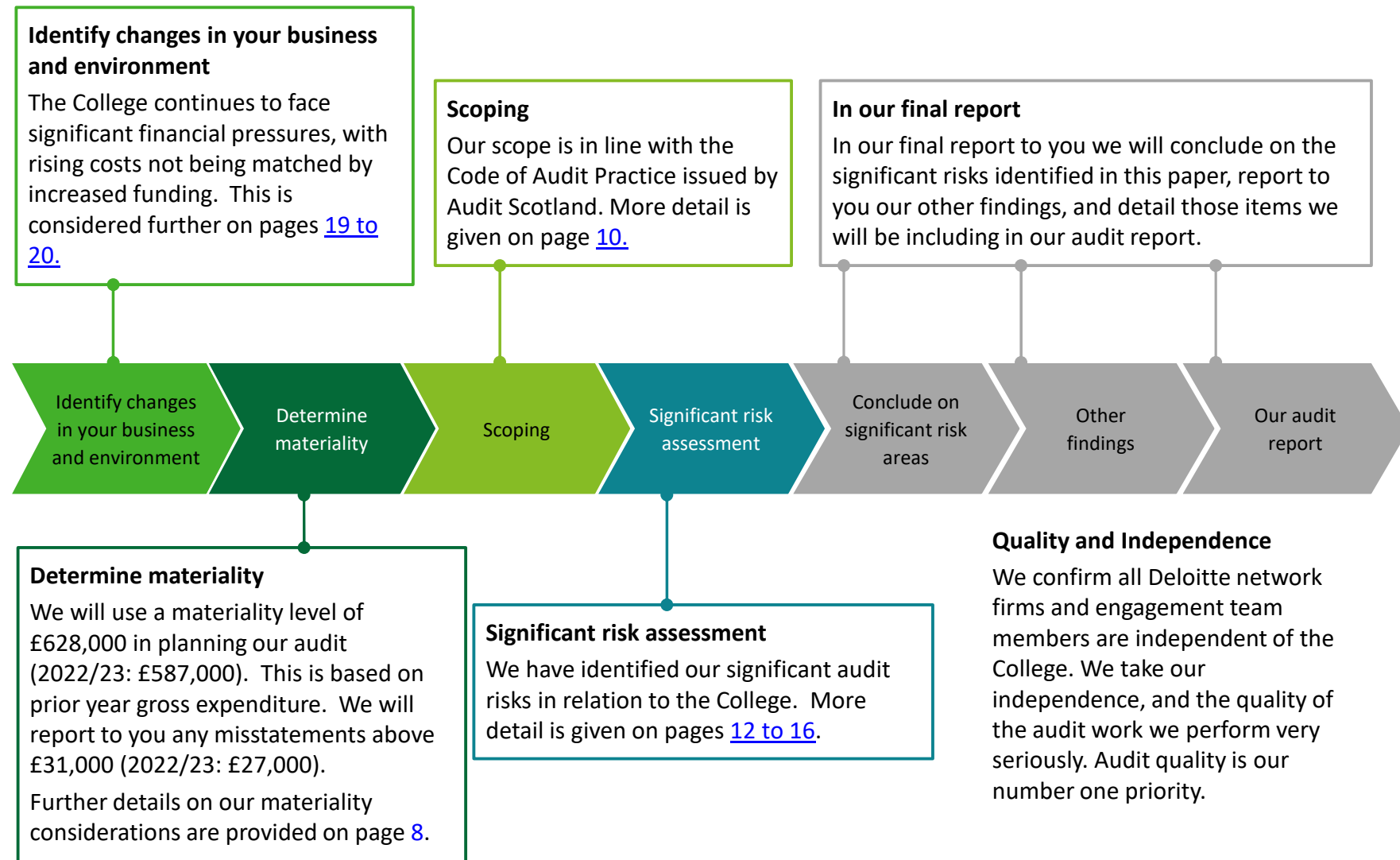
- Reviewing internal financial controls and internal control and risk management systems (unless expressly addressed by a separate Board risk committee or by the Board itself).
- Monitoring and reviewing the effectiveness of the internal audit function; where there isn't one, explaining the absence, how internal assurance is achieved, and how this affects the work of external audit.
- Reporting in the annual report on the annual review of the effectiveness of risk management and internal control systems.
- Explaining what actions have been or are being taken to remedy any significant failings or weaknesses.

### Our response

As stakeholders tell us they wish to understand how external audit challenges and responds to the quality of an entity's control environment, we are seeking to enhance how we plan and report on the results of the audit in response. We will be placing increased focus on how the control environment impacts the audit, from our initial risk assessment, to our testing approach and how we report on misstatements and control deficiencies.

# An audit tailored to you

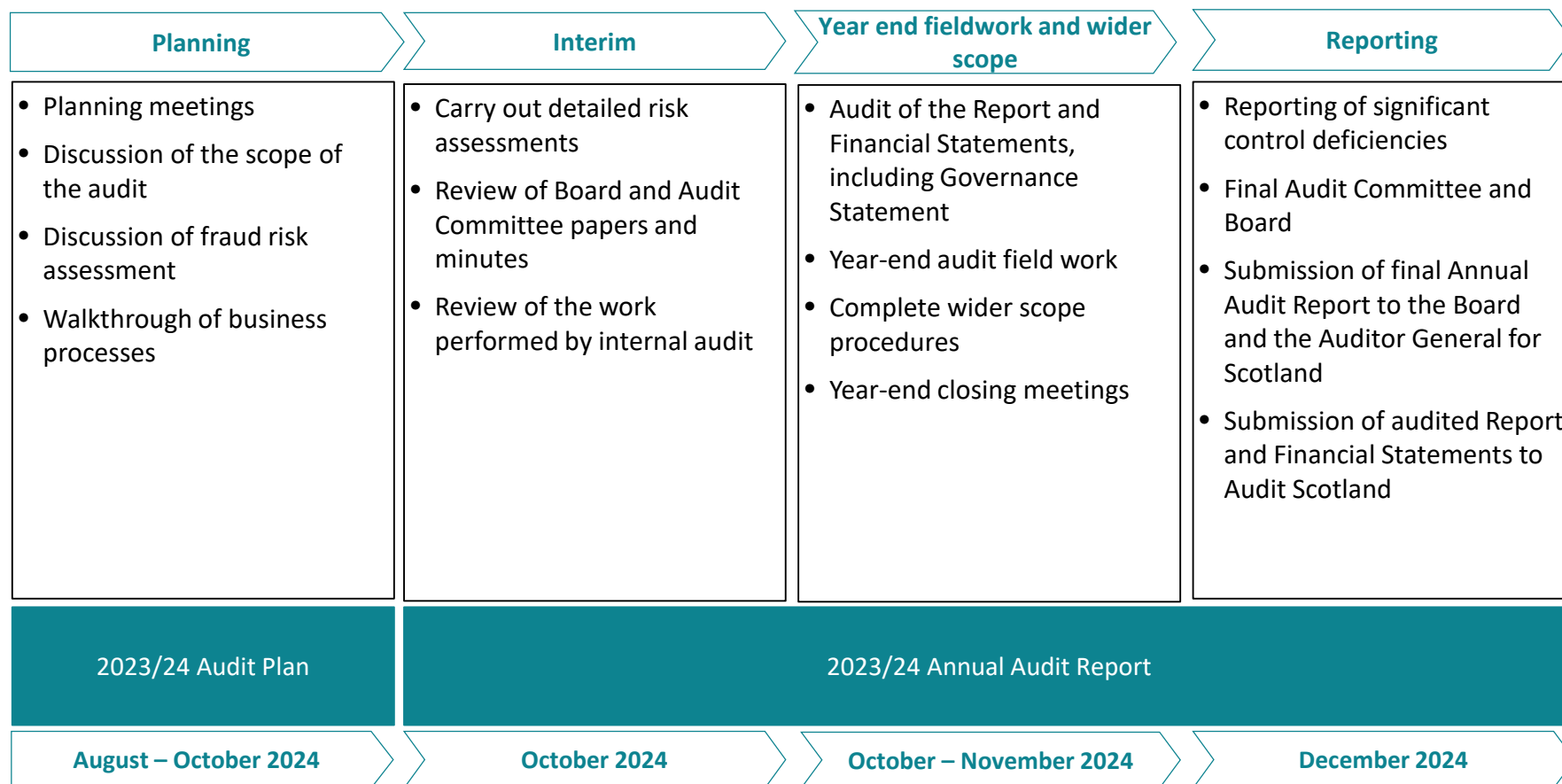
## Overview of our audit plan



# Continuous communication and reporting

## Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously, and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to, and communication with, you.



Ongoing communication and feedback

# Materiality

## Our approach to materiality

### Basis of our materiality benchmark

- The audit partner has determined group materiality as £628,000 and performance materiality of £376,000, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the Annual Report and Accounts.
- We have used 2% of prior year gross expenditure as the benchmark for determining materiality and applied 60% as performance materiality. We have judged expenditure to be the most relevant measure for the users of the accounts.
- For the audit of UHI Perth (College only), a materiality of £596,000 and performance materiality of £357,000 has been determined.

### Reporting to those charged with governance

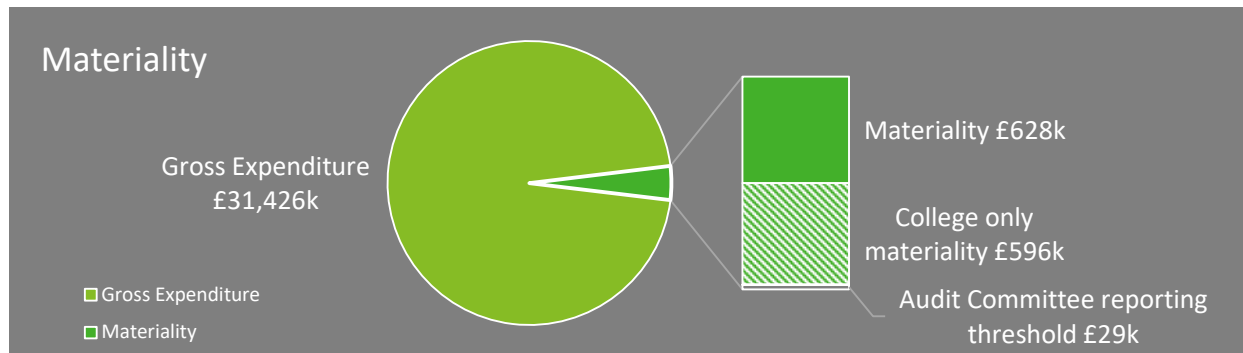
- We will report to you all misstatements found in excess of £31,000 for the group and £29,000 for the College only.
- We will report to you misstatements below this threshold if we consider them to be material by nature.

Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance, which states that the threshold for clearly trivial above which we should accumulate misstatements for reporting and correction to the Audit Committee must not exceed £250,000.

### Our Annual Audit Report

We will:

- Report group and College only materialities, and the range we use for component materialities.
- Provide comparative data and explain any changes compared to prior year.
- Explain any normalised or adjusted benchmarks we use.
- Explain the concept of performance materiality and state what percentage of materiality we used for the group and parent company audits, with our rationale.



Although materiality is the judgement of the audit partner, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.



# Scope of work and approach

## Our key areas of responsibility under the Code of Audit Practice

Auditor's activity	Planned output	Proposed reporting timeline to the Committee	Audit Scotland/ statutory deadline
Audit of Annual Report and Accounts	Annual Audit Plan Independent Auditor's Report Annual Audit Report	09 October 2024 11 December 2024 11 December 2024	09 October 2024 31 December 2024 31 December 2024
Wider scope areas	Annual Audit Plan Annual Audit Report	09 October 2024 11 December 2024	09 October 2024 31 December 2024

# Scope of work and approach (continued)

## Our approach

### Liaison with internal audit and local counter fraud

ISA (UK) 610 “Using the work of internal auditors” prohibits use of internal audit to provide “direct assistance” to the audit. Our approach to the use of the work of internal audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work where necessary. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment, we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the College’s staff.

### Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be ‘relevant to the audit’. This involves evaluating the design of the controls and determining whether they have been implemented (“D&I”).

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

### Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We use and continually update Financial Reporting Standard 102 (“FRS102”) disclosure checklists in conjunction with the requirements of the Further and Higher Education Statement of Recommended Practice (“SORP”) and Financial Reporting Manual (“FReM”) to support the College in preparing high quality drafts of the Report and Financial Statements, which we would recommend the College complete during drafting.










### Other reporting prescribed by the Auditor General

In addition to the opinion on the financial statements, we are also required to provide an opinion on the following:




- The regularity of expenditure and income.
- Whether the audited part of the Remuneration and Staff Report has been properly prepared.
- Whether the Performance Report and Governance Statement are consistent with the financial statements and have been properly prepared.

# Significant risks

## Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Level of management judgement	Management paper expected	Page no.
Risk 1 – Management override of controls		DI			<a href="#">12</a>
Risk 2 – Operating within funding provided		DI			<a href="#">13</a>
Risk 3 – Completeness of income		DI			<a href="#">14</a>

### Level of management judgement

-  Limited management judgement
-  A degree of management judgement
-  Significant management judgement

### Controls approach adopted

- DI Assess design & implementation

# Significant risks (continued)

## Risk 1 – Management override of controls

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**Risk identified**

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

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

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**Our response**

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

- We will consider the overall control environment and 'tone at the top';
  - We will test the design and implementation of controls relating to journals and accounting estimates;
  - We will make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
  - We will test the appropriateness of journals and adjustments made in the preparation of the Report and Financial Statements. We will use Spotlight data analytics tools to select journals for testing, based upon identification of items of potential audit interest;
  - We will review accounting estimates for biases that could result in material misstatements due to fraud and perform testing on key accounting estimates as discussed above; and
  - We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.
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# Significant risks (continued)

## Risk 2 – Operating within the funding provided

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### Risk identified

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

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

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

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### Our response

We will evaluate the results of our audit testing in the context of the achievement of the limits set by the Scottish Funding Council (“SFC”). Our work in this area will include the following:

- Evaluating the design and implementation of controls around monthly monitoring of financial performance and the estimated accruals made at the year end;
  - Obtain independent confirmation of the funding allocated to the College by the SFC and University of the Highlands and Islands (“UHI”);
  - Perform focused testing of a sample of accruals made at the year end to address the risk that accruals are understated; and
  - Performing focused cut-off testing of a sample of invoices received and paid post year end as a search for unrecorded liabilities in 2023/24.
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# Significant risks (continued)

## Risk 3 – Completeness of income

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### Risk identified

ISA (UK) 240 states that when identifying and assessing the risks of material misstatements due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

We have assessed the income streams for the College and concluded that the risk of a material misstatement due to fraud can be pinpointed to the non-recurrent funding as there is no judgement in respect of the recurrent grants from the SFC and UHI. We have pinpointed the non-recurrent funding risk to be in relation to:

- Incorrect income cut-off recognition, as there is a risk that the College can manipulate its financial position around the year-end;
- Incorrect recognition applied to grant income with conditions attached; and
- Incorrect recognition where performance conditions are in place.

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### Our response

We will perform the following procedures:

- Test the design and implementation of key controls in place around the recognition of non-recurrent funding;
  - Perform focused cut-off testing of a sample of invoices raised and income received around the year-end;
  - Test a sample of grants for any evidence of clawback of income where conditions of entitlement have not been met; and
  - Test a sample of grants with performance conditions to ensure income is recognised correctly in line with the outlined requirements.
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## Other areas of audit focus

We have identified the below areas of audit interest, although do not consider these to be significant risks

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### **Risk identified** Pension liability

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#### **Summary**

Retirement benefits to employees of the College are provided by the Tayside Pension Fund, which administers the Local Government Pension Scheme (LGPS) and managed by Dundee City Council, and the Scottish Teachers Superannuation Scheme (STSS), which is administered by the Scottish Public Pensions Agency (SPPA).

The net pension asset decreased from £3,552k in 2021/22 to become an £876k liability in 2022/23. The decrease is a combination of a fair value assets movement, changing demographics for the liabilities assumptions, and the calculation of the asset ceiling. The liability also continues to be affected by the McCloud and Goodwin legal cases.

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

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#### **Deloitte response**

We will perform the following procedures to address the risk:

- Engage with the Pension Fund auditor to ensure timetables are aligned to provide the required assurances;
  - Assess the independence and expertise of the actuary supporting the basis of reliance upon their work;
  - Review and challenge the assumptions made by the actuary;
  - Obtain assurance from the auditor of the Pension Fund over the controls for providing accurate data to the actuary;
  - Assess the reasonableness of the College's share of the total assets of the scheme within the Pension Fund annual accounts and the Fund's estimated asset position at 31 July 2024;
  - Review and challenge the calculation of the impact of the McCloud and Goodwin cases on pension liabilities;
  - Review the disclosures within the accounts against the SORP; and
  - Engage Deloitte's internal pensions experts to assist with the above procedures.
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## Other areas of audit focus (continued)

We have identified the below areas of audit interest, although do not consider these to be significant risks

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**Risk identified** Property valuation

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**Summary** The College held £43.1m of property assets (land and buildings) at 31 July 2022 which increased to £48.1m as at 31 July 2023. The balance is highly material to the financial statements.

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

The College's land and buildings are revalued every five years for the purposes of the financial statements with an interim valuation after three years. Land and buildings were last valued at 31 July 2023 by the College's appointed external valuer.

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**Deloitte response** We will perform the following procedures to address the risk:

- Test the design and implementation of key controls in place around the property valuations and impairment assessment performed by management.
- Use our valuation specialists, Deloitte Real Asset Advisory, to review the build cost and obsolescence movements year on year.
- We will agree the accounting entries made to the financial statements for any movements in valuation.

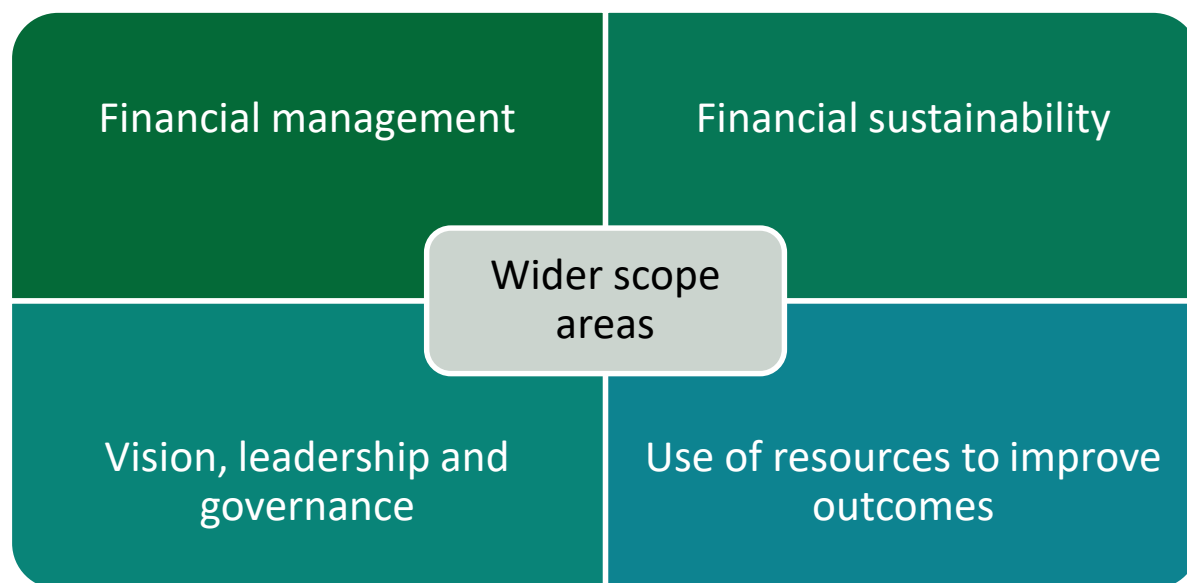
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# Wider scope requirements

## Overview

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



As part of our risk assessment, we have considered the arrangements in place for the wider scope areas and have summarised the significant risks and our planned response on the following pages.

# Wider scope requirements (continued)

## Significant risks

Area	Significant risks identified	Planned audit response
Financial sustainability	The financial environment in which the College operates is challenging, with the impact of declining student numbers, together with inflationary pressures and national pay awards continuing to exacerbate an already challenging financial position. The College is in the process of implementing a financial recovery plan during 2024 to address the significant financial sustainability challenges it is facing.	<p>We will monitor the progress of the financial recovery plan in place at UHI Perth, including any savings the plan has achieved.</p> <p>We will also assess the development of the 2024/25 and 2025/26 budget and the impact on the medium and longer term financial outlook.</p>

# Wider scope requirements (continued)

## Other risks

Area	Risks identified	Planned audit response
Vision, leadership and governance	We note the departure of three Vice Principals from UHI Perth between March and July 2024. The Depute Principal of Operations and the Director of Finance only joined the College during 2024. There is a risk that changes to the composition of the senior team (particularly finance) at the College will create knowledge gaps and have an adverse impact on the culture and working environment of key individuals at the College.	We will review the work of the Board and its committees to assess whether the arrangements are operating effectively, including assessing whether there is effective scrutiny, challenge and informed decision making.
Use of resources to improve outcomes	As discussed under financial sustainability, there is a significant risk that the College does not have plans in place to manage its finances sustainably. The College is in the process of implementing a financial recovery plan during 2024 to address the significant financial sustainability challenges it is facing. Linked to this, there is a risk that performance management systems are not sufficient to demonstrate how resources are being directed to improve outcomes.	<p>We will review the performance reports presented to the Board against the College's strategic objectives to assess how the College is demonstrating the best use of resources to improve outcomes.</p> <p>We will monitor the progress of the financial recovery plan in place at UHI Perth, including any savings the plan has achieved.</p>

# Wider scope requirements (continued)

## Other requirements

Area	Requirements
National Fraud Initiative	<p>The National Fraud Initiative (“NFI”) in Scotland is a biennial counter-fraud exercise led by Audit Scotland and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, that might suggest the existence of fraud or error.</p> <p>All Colleges, including UHI Perth, are participating in the 2023/24 NFI exercise. Participating bodies should have received matches for investigation from January 2024 and these required to be investigated by 30 September 2024. We will monitor the College’s participation and progress during 2023/24 and, where appropriate, include reference to NFI in our Annual Audit Report.</p>
Anti-money laundering	<p>We are required to ensure that arrangements are in place to be informed of any suspected instances of money laundering at audited bodies. Any such instances will be advised to Audit Scotland.</p>
Fraud returns	<p>We are required to prepare and submit fraud returns to Audit Scotland for all frauds at audited bodies:</p> <ul style="list-style-type: none"><li>• Involving the misappropriation or theft of assets or cash which are facilitated by weaknesses in internal control.</li><li>• Over £5,000.</li></ul>

# Audit quality

## Our commitment to audit quality



Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular for your audit, we consider that the following steps will contribute to the overall quality:

We will apply professional scepticism on material issues and significant judgements by using our expertise in the sector and elsewhere to provide robust challenge to management.

We have obtained an understanding of your business, its environment and of your processes for income and expenditure recognition, payroll expenditure and fixed assets valuation enabling us to develop a risk-focused approach tailored to the College.

Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve property specialists to support the audit team in our work on the valuation of property assets, IT specialists to support the audit team in our understanding of IT controls, and pension specialists to support the audit team in our work on the pension liability.

In order to deliver a quality audit to you, each member of the core audit team has received tailored learning to develop their expertise in audit skills.



### **Engagement Quality Control Review**

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (“PSR”) function will provide a ‘hot’ review before any audit or other opinion is signed. PSR is operationally independent of the audit team and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

# Audit quality (continued)

## FRC Audit Quality Inspection and Supervision Report

We are proud of our people's commitment to delivering high quality audits and we continue to have an uncompromising focus on audit quality. Audit quality is and will remain our number one priority and is the foundation of our recruitment, learning and development, promotion and reward structures.

In July 2024, the FRC issued individual reports on each of the six largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2023/24 cycles of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

In that context, we are pleased that the percentage of audits inspected by the FRC requiring no more than limited improvements was 94%, which shows a continued improvement on the prior year. The equivalent results for FTSE 350 audits inspected was 100%. One of the audits we inspected was found to require significant improvements. The findings that contributed most to this year's inspection results related to the audit of impairment assessments. We have previously identified key findings and examples of good practice in this audit area.

The overall results profile for inspections by the ICAEW was 100% classified as good or generally acceptable. These sets of results reflect the continuous investment we are making and our commitment to acting in the public interest to deliver confidence and trust in business through our high-quality audits.

We are also pleased that previous recurring findings relating to revenue and margin recognition and provisions were not identified as a key finding in the current FRC inspection cycle, reflecting the positive impact of actions taken in previous years. We nevertheless remain committed to sustained focus and investment in these areas and more broadly to achieve consistently high-quality audits.

All the AQR public reports are available on its website:

<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

### **The AQR's 2023/24 Audit Quality Inspection and Supervision Report on Deloitte LLP**

"In the 2023/24 public report, we concluded that the firm had made progress on actions to address our previous findings and made improvements in relation to its audit execution and firm-wide procedures. The firm has continued to show improvement, with an increase in the number of audits we assessed as requiring no more than limited improvements to 94% compared with 82% in the previous year and 83% on average over the past five years.

The area which contributed most to the audits requiring improvement related to impairment assessments." We are pleased to see examples of good practice highlighted by the FRC in respect of our work on impairment and valuations. We remain focused on ensuring greater consistency of our work in this area.

# Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

## What we report

Our report is designed to establish our respective responsibilities in relation to the Report and Financial Statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, relevant to you.

## Use of this report

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

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

## What we don't report

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

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

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

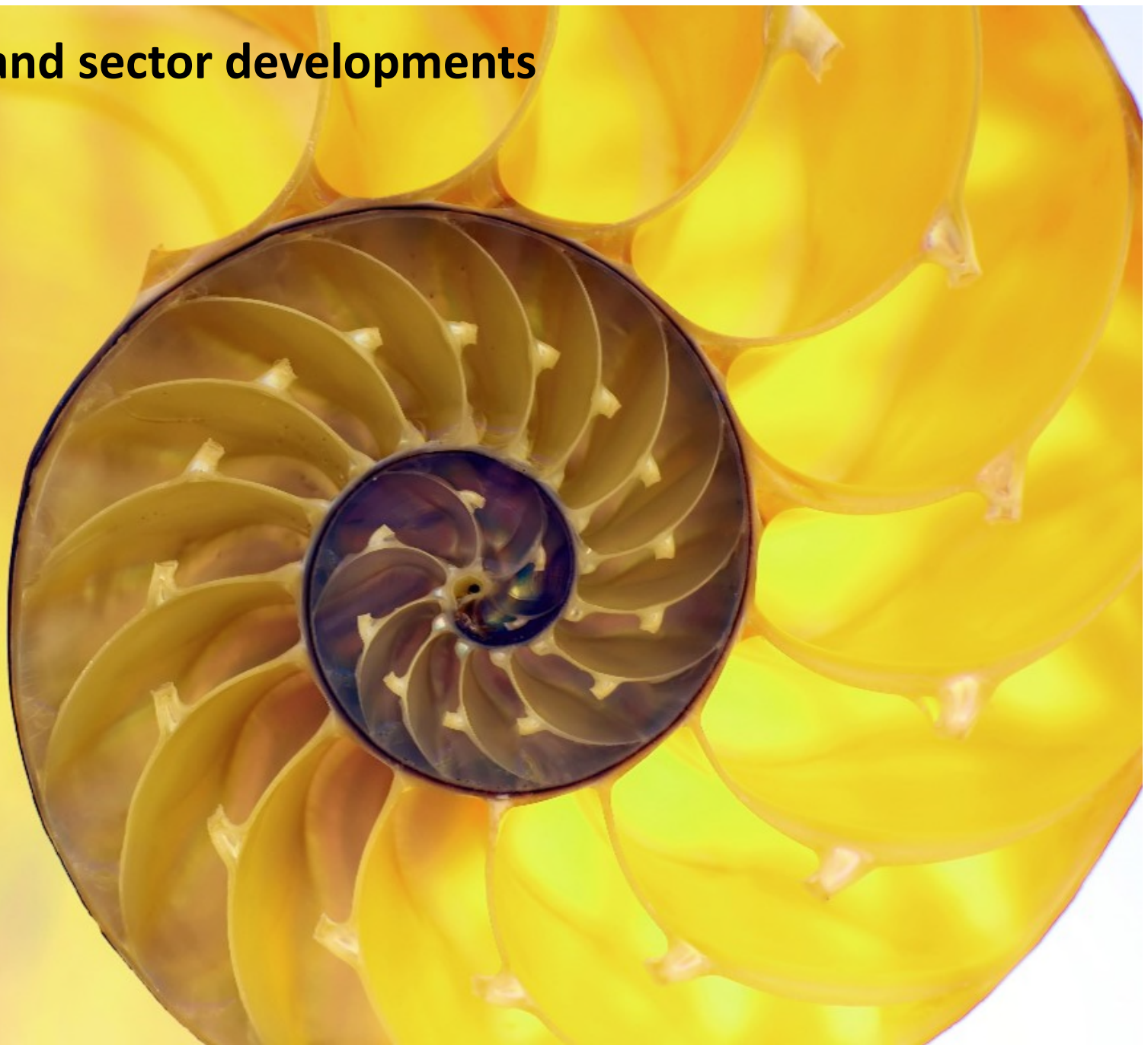
## Other relevant communications

We will update you if there are any significant changes to the audit plan.

**Deloitte LLP**

Newcastle upon Tyne | 04 October 2024

# Technical and sector developments





# Reporting hot topics

## Ongoing macro-economic uncertainty

### Reporting in times of uncertainty

Businesses face unprecedented uncertainty from a variety of sources, including stresses arising from energy supply and costs, inflation, foreign exchange volatility, commodity availability and pricing, global supply chain disruption, labour shortages and the impacts of climate change. Many of these issues are exacerbated by the ongoing conflicts between Russia and Ukraine, as well as Israel and Gaza.

High-quality, transparent reporting that clearly explains the impact of these uncertainties on the College's financial position, performance and cash flows, as well as the College's response to these risks, remains as important as ever.



### Impact of ongoing macro-economic uncertainty – Considerations

The current macro-economic uncertainty and the resulting challenges have a pervasive impact on the financial statements and need to be considered comprehensively across all account balances and disclosures, in particular those involving estimation or judgement.

Sources of uncertainty likely to impact the College's operations and corporate reporting include:

- **High energy costs and risk of energy shortages**
- **Supply chain disruptions**
- **Continued pressures on labour supply and wages**



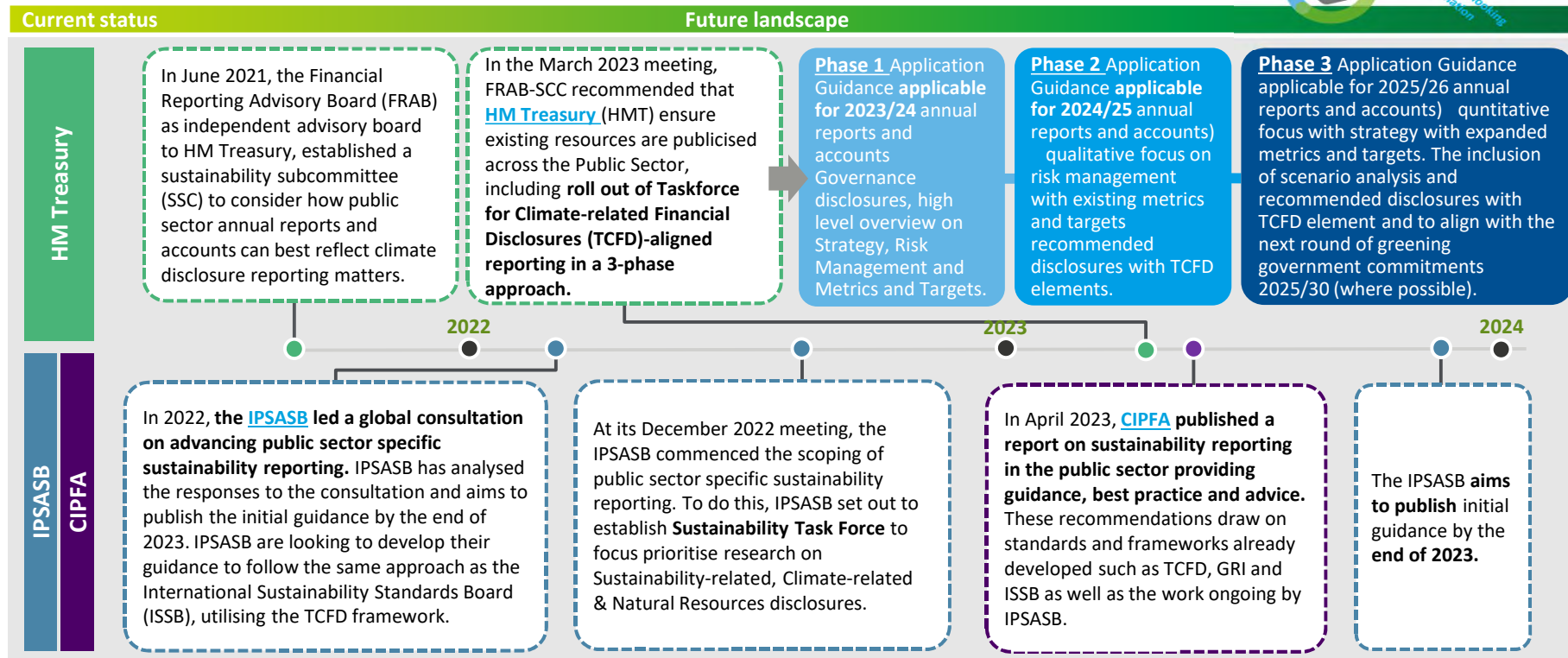
### Impact of ongoing macro-economic uncertainty – Action

We expect all Colleges to have undertaken a comprehensive, evidence-based assessment of the risks relating to macroeconomic conditions including for example, higher energy costs, supply chain disruption, commodity availability and labour shortages. Consideration should be given to how those risks affect both the operations of the College and the impact on the annual report and financial statements as a whole.

We expect Colleges to have considered the pressures throughout the value chain(s) in which they operate, including an assessment of the risks relating to suppliers and operations.

# Climate and Sustainability reporting landscape in the Public Sector

Currently, there are a number of reporting frameworks that are being adopted by the public sector. However the climate and sustainability reporting landscape is changing and with change comes challenge and complexity. A summary of the **current status** of the reporting landscape in the public sector, and the likely **future** of reporting against sustainability and climate-related matters, including the challenges and next steps to consider, is noted below.



## What next?

- It is likely that the TCFD framework will be the first sustainability reporting standard implemented for the public sector, notably for Central Government.
- Other relevant bodies (E.g. CIPFA and Department of Health & Social Care) to set their own reporting requirements for their respective sectors.
- Expect further clarity later this year when the IPSASB guidance is published.

## What about assurance?

In its March 2023 meeting, FRAB recognised the complexity of introducing formal assurance requirements, with plans to implement this only under early consideration by the National Audit Office (similar in the private sector). We recommend that public sector bodies develop a plan to meet the expected reporting requirements and consider what oversight and assurance will be required ahead of year end.

## Next steps

Based on the experiences of existing TCFD reporters, implementation of sustainability reporting frameworks and standards is known to be challenging and early planning is essential to help meet expected reporting requirements. Some key considerations in anticipation of increased focus for the public sector include:

- **Granularity** The need for more detail, specificity and granularity was a key theme from the regulator this year. Going beyond the headline of each recommended disclosure is now common practice.
- **Connectivity** Within and between the narrative and financial statement disclosures. In the example of TCFD disclosures, significant focus has been placed on financial quantification of climate impacts and ensuring front and back half disclosures are consistent with each other.
- **Access to data** All sustainability and climate reporting will require additional data, both in terms of quantity and crucially, quality of what is collected and reported. Currently some data may not be readily available or complete, and/or require challenge and oversight to obtain, measure and report.

# Sector developments

## Good practice in annual reporting – National Audit Office (“NAO”)

### Background and overview

Effective annual reporting in the public sector is more important than ever. The COVID-19 pandemic and, more recently, the energy price crisis have resulted in extraordinary public spending interventions by the government to support the public and the economy. Making government spending transparent and understandable to those who fund it – taxpayers – is therefore critical. Annual reports must clearly tell the ‘story’ of how these monies have been spent and what has been achieved. Crucially, annual reports and accounts must give assurance on how effective outcomes are being secured and how the risk of fraud and loss to the public purse is being appropriately managed and controlled.

Good reporting equips stakeholders with information they can use to hold organisations to account. This is why high-quality annual reports and accounts are fundamental to effective accountability.

The NAO has published a guide setting out good practice principles that it believes underpin good annual reporting. These principles are grouped under: **Supporting accountability**, **Transparency**, **Accessibility**, and the need for the report to be **Understandable**. Against these principles, the guide highlights examples which demonstrate attributes of good-practice reporting, including:

- Joined-up reporting.
- A frank and balanced assessment of risks and opportunities facing an organisation.
- Understandable non-financial information.
- Linkage between financial and non-financial information.
- Accessibility considerations.

### Next steps

The full guide is available for consideration by management as part of the preparation for the 2023/24 Annual Report and Financial Statements at [Good practice in annual reporting - National Audit Office \(NAO\) insight](#).

# Appendices



# Prior Year audit adjustments

## Uncorrected misstatements

The following uncorrected misstatements were identified during our 2022/23 audit:

2022/23 Uncorrected misstatements		Debit/(credit) OCI £'000	Debit/(credit) in net assets £'000	Debit/(credit) prior year reserves £'000	Debit/(credit) Surplus/deficit £'000	If applicable, control deficiency identified
Misstatements identified in current year						
Tuition fee income deferral	[1]		(77.5)		77.5	[Pages 16-17]
Accrued income - Mountain Studies	[2]		(51.5)		51.5	[Pages 16-17]
Brahan redecoration accrual	[3]		62		(62)	

[1] As part of our testing we identified that journal RVJNL99-7467 was posted incorrectly. The value posted to defer tuition fee income was £144k but should have been £221.5k. Income was resultantly overstated and deferred income understated.

[2] Error identified in one of the note 4 samples. The amount was a £50k income accrual, however due to incorrect underlying workings, this was incorrect and should have been a £1.5k income deferral.

[3] An invoice from Pankhurst Decorators Ltd was accrued at year end for decoration to the entrance of the Brahan building. This service was only carried out in October 2023 so should not have been accrued at year end. The total error on this transaction is £6k but extrapolates to £62k across the whole population.

# Prior Year audit adjustments

## Uncorrected misstatements (continued)

2022/23 Uncorrected misstatements (continued)	Debit/(credit) OCI £'000	Debit/(credit) in net assets £'000	Debit/(credit) prior year reserves £'000	Debit/(credit) Surplus/deficit £'000	If applicable, control deficiency identified
<b>Misstatements identified in current year</b>					
Pay rise accrual [4]		164		(164)	
<b>Total (continued from previous page)</b>		<b>97</b>		<b>(97)</b>	

[4] The 6% pay award rate calculated by the College varies to the 5.09% recalculation performed by Deloitte and causes an extrapolated variance of £164k overall. We have recalculated the pay award accrual using different methodology from the Colleges workings – we have applied the £2k pay award as offered by Colleges Scotland to each employee (pro-rated) and performed the recalculation on this basis. Resulted in a nontrivial overstatement against the client's estimation.



# Our other responsibilities explained

## Fraud responsibilities



### **Your Responsibilities:**

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



### **Our Responsibilities:**

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified risks of material misstatement due to fraud in completeness of income, operating within funding provided, property valuations, and management override of controls.
- We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.
- We will communicate to you any other matters related to fraud that are, in our judgment, relevant to your responsibilities. In doing so, we shall consider the matters, if any, regarding management's process for identifying and responding to the risks of fraud and our assessment of the risks of material misstatement due to fraud.



### **Fraud Characteristics:**

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

# Our other responsibilities explained (continued)

## Fraud responsibilities (continued)

We will make the following inquiries regarding fraud and non-compliance with laws and regulations:



### **Management and other personnel:**

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to risks of fraud.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries, in particular the Principal.
- We will also make inquiries of personnel who are expected to deal with allegations of fraud raised by employees or other parties.

### **Internal audit:**



- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

### **Those charged with governance:**



- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity, including those specific to the sector.



# Independence and fees

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

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## Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the College and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 July 2024 in our final report to the Audit Committee.

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## Fees

The expected fee for 2023/24, as communicated by Audit Scotland in December 2023 is analysed below:

	£
Auditor remuneration	47,320
Audit Scotland fixed charges:	
• Pooled costs	(5,050)
• Sectoral cap adjustment	(6,670)
<b>Total expected fee</b>	<b>35,600</b>

There are no non-audit fees.

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## Non-audit services

We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

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## Relationships

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

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