New College Lanarkshire

Annual Audit Plan 2024/25

AUDIT SCOTLAND

Prepared for New College Lanarkshire
May 2025

Contents

Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2024/25 audit of New College Lanarkshire's (the college) annual report and accounts. It outlines the audit work planned to meet the audit requirements set out in auditing standards and the Code of Audit Practice, including supplementary guidance.

Appointed auditor and independence

2. Louisa Yule, of Audit Scotland, has been appointed by the Auditor General for Scotland as external auditor of the college for the period from 2022/23 until 2026/27. The 2024/25 financial year is therefore the third of the five-year audit appointment.

3. Louisa Yule and the audit team are independent of the college in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of the college to communicate.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement, including the regularity of income and expenditure.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, the Performance Report, and the Governance Statement, and an opinion on the audited part of the Remuneration and Staff Report.
- Conclusions on the college's arrangements in relation to the wider scope areas: Financial Management, Financial Sustainability, Vision, Leadership, and Governance, and Use of Resources to Improve Outcomes.
- Reporting on the college's arrangements for securing Best Value.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual report and accounts and the wider scope areas specified in the Code of Audit Practice.

Responsibilities

6. The Code of Audit Practice sets out the respective responsibilities of the college and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts, and concluding on the college's arrangements in place for the wider scope areas.

The college's responsibilities

8. The college has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of an annual report and accounts, comprising financial statements and other information that gives a true and fair view.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

Audit of the annual report and accounts

Introduction

9. The audit of the annual report and accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

Materiality

10. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

11. Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor’s professional judgement.

12. The materiality levels determined for the audit of the college and its group are outlined in Exhibit 1. Group materiality assumes the dissolution of the Regional Strategic Board (RSB) is completed on the 30 July 2025. If the RSB is not operational at the year-end date (i.e. the 31 July 2025), under FRS 102 the college should not include South Lanarkshire College in its 2024/25 group financial statements.

Exhibit 1
2024/25 Materiality levels for the college and its group

Materiality	College	Group
Materiality – based on an assessment of the needs of users of the financial statements and the nature of the college's operations, the benchmark used to determine materiality is gross expenditure based on the audited 2023/24 financial statements. Group materiality is based on combined college and Amcol gross expenditure. Materiality has been set at 2% of the benchmark.	£1.134 million	£1.216 million
Performance materiality – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 55% of planning materiality.	£0.623 million	£0.668 million
Reporting threshold – all misstatements greater than the reporting threshold will be reported.	£0.050 million	£0.055 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. The risk assessment process draws on the audit team's cumulative knowledge of the college, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

14. Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in Exhibit 2, page 8. These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are also outlined in Exhibit 2.

15. The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan and Exhibit 2 may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to the college and those charged with governance, where relevant.

Exhibit 2

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias. • Substantive testing of income and expenditure around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

Risk of material misstatement	Planned audit response
Valuation of land and buildings The college's land and buildings assets at 31 July 2024 were valued at £132.865 million. There is a significant degree of subjectivity in the valuation of these assets. Valuations are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations. Asset values can change materially year on year, and it is important that the college ensures the value of its land and building assets are not materially misstated. All land and buildings are valued every five years with the last full valuation completed on the 31 July 2023. Where asset values are likely to have changed materially between valuations, the Government Financial Reporting Manual (FReM) allows for the completion of an indexation or desktop valuation exercise. There is a risk, in years where a valuation is not carried out, that there is a material difference between the carrying value and fair value of the college's land and buildings.	The audit team will: • Challenge management's assessment of why it considers that land and buildings not revalued in 2024/25 are not material misstated and critically assess the approach adopted by management. • Where a desktop valuation or valuer informed indexation exercise has been completed, evaluate the competence, capability, and objectivity of the valuer. • Where a desktop valuation has been completed, obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Where a desktop valuation or valuer informed indexation exercise has been completed, critically assess the assumptions made by the valuer and conclude on whether the assumptions made are appropriate. • Where a desktop valuation or valuer informed indexation has been completed, test the revaluation adjustments made and ensure they have been accounted for accurately. • Evaluate the impairment assessment of land and buildings undertaken by management, and assess whether there are any indications of impairment in the college's land and buildings. • Critically assess the adequacy of the college's disclosure regarding the assumptions in relation to the valuation of fixed assets.

Risk of material misstatement	Planned audit response
Job evaluation provision The college had a job evaluation provision of £4.459 million at 31 July 2024. This was an estimate of the costs associated with the national bargaining support staff and middle management exercise which is yet to be concluded. The outcome of this exercise will be implemented from 1 September 2018. The estimate in the 2023/24 financial statements was based on Colleges Scotland's February 2019 costings. The National Joint Negotiating Committee (NJNC) for Scotland's colleges have suggested this estimate can no longer be considered reliable. For the 2024/25 accounts, it is a requirement of the college's financial reporting framework that a reliable estimate of this obligation is made. There is a risk that the job evaluation provision at the 31 July 2025 does not represent management's best estimate of the obligation, and this results in a material misstatement in the 2024/25 annual report and accounts.	The audit team will: • Evaluate the approach to calculating the job evaluation provision, and assess whether the amount recognised in the financial statements represents the best estimate of the obligation.

Source: Audit Scotland

Key audit matters

16. The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

17. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

18. The matters determined to be key audit matters will be communicated in the Annual Audit Report. Exhibit 2 outlines the significant risks of material misstatement to the financial statements that have been identified, including those that have greatest impact on the planned audit procedures and require most attention when performing the audit.

Group audit

19. The college is part of a group and prepares group financial statements. In previous years, the group has been made up of three components: New College Lanarkshire, Amcol Scotland Limited (Amcol) and South Lanarkshire College.

20. Under the Lanarkshire Order 2014, New College Lanarkshire is the Regional Strategic Board (RSB) for Lanarkshire and management has previously determined it has the power to control the assigned college, South Lanarkshire College. Based on discussions with the Scottish Funding Council (SFC), the RSB is expected to be dissolved effective on the 30 July 2025. If the RSB is not operational at the year-end date (i.e. the 31 July 2025), under FRS 102 the college should not include South Lanarkshire College in its 2024/25 group financial statements.

21. It is therefore expected that the 2024/25 group financial statements will include two components, the college and Amcol. Risk assessment procedures have been performed on the group audit to identify if there are any risks of material misstatement to the group financial statements, or any components where audit procedures are required for the purposes of the group audit. The outcome of the risk assessment procedures on the group audit are outlined in Exhibit 3.

Exhibit 3
Outcome of risk assessment procedures on the group audit

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
New College Lanarkshire	Consolidated on a line-by-line basis	Yes – Exhibit 2	Yes – full scope audit	Audit Scotland

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
Amcol	Consolidated on a line-by-line basis	No – see paragraph 22.	Yes – audit procedures on material classes of transactions, balances and disclosures. Based on the 2023/24 financial statements, this would be other income, staff costs, cash and cash equivalents and reserves.	McDaid & Partners

Source: Audit Scotland

22. We held discussions with Amcol's auditors, McDaid & Partners, in February 2025 on the audit procedures likely to be required for the purposes of the group audit. While no risks of material misstatement have been identified at this stage, risk assessment is an iterative and dynamic process and will keep this under review throughout our audit. Where changes occur, these will be reported to the college and those charged with governance, where relevant.

23. A risk assessment questionnaire has been issued to the component auditor, McDaid & Partners. Further discussions will take place with the component auditor to outline our expectations and requirements in respect of the audit procedures to be performed for the purposes of the group audit.

Wider scope and Best Value

Introduction

24. Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual report and accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management** – this means having sound budgetary processes. Factors that can impact on the college being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** – this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering the college's medium to longer-term planning for service delivery.
- **Vision, Leadership and Governance** – this means having a clear vision and strategy, with set priorities within the vision and strategy. This is assessed by considering the clarity of plans in place to deliver the vision and strategy and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. This is assessed by considering the college's arrangements for ensuing resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

25. A conclusion on the effectiveness and appropriateness of arrangements the college has in place for each of the wider scope areas will be reported in the Annual Audit Report.

Duty of Best Value

26. The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Best Value in public services: guidance for Accountable Officers is issued by Scottish Ministers and sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

27. Consideration of the arrangements the college has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on the arrangements the college has in place will be reported in the Annual Audit Report.

28. Auditors may also carry out specific audit work covering the seven Best Value characteristics set out in the SPFM. The risk assessment process did not identify a need to carry out specific audit work on any of the characteristics. In addition, auditors are required to carry out a review of the ‘fairness and equality’ characteristic at least once during the audit appointment, and this will be carried out during the 2024/25 audit.

Significant wider scope and Best Value risk

29. The risk assessment process has identified one significant risk in the wider scope areas and Best Value as outlined in Exhibit 4. This includes the planned audit procedures in response to this risk.

Exhibit 4
Significant wider scope and Best Value risk

Description of risk	Planned audit response
Financial sustainability The college has experienced significant cashflow challenges and the most recent financial forecast reported a deterioration in its 2024/25 underlying operating position from its initial 2024/25 budget. The college's budget is prepared using the SFC financial forecast return assumptions. The college has previously required a funding advance of £4.5 million from the SFC which is yet to be repaid, and is expecting to require a further funding advance from the SFC in July 2025. The college required Amcol, its subsidiary, to transfer funds in March 2025 to maintain liquidity. Together with Amcol, the college budgeted for an underlying operating position surplus of £0.948 million. The forecast year-end position in its mid-year return to the SFC is now a small £0.007 million surplus. The college continues to rely on the support of the SFC to be able to meet its financial commitments and is not projecting to deliver the surplus budgeted for.	The audit team will: • Review the college's year-end outturn, and consider whether new income streams such as the undergraduate school, have delivered the additional income forecast. • Consider the college's updated three-year financial forecast return (FFR) submitted to the Scottish Funding Council. • Evaluate plans to address any forecasted budget deficits in the FFR. • Assess whether the college has sufficient plans in place to deliver its objectives within the financial constrains it faces.

Source: Audit Scotland

Reporting arrangements, timetable and audit fee

Audit outputs

30. The outputs from the 2024/25 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to the college, the Auditor General for Scotland, and the Scottish Parliament setting out opinions on the annual report and accounts.
- An Annual Audit Report to the college and the Auditor General for Scotland setting out significant matters identified from the audit of the annual report and accounts, conclusions from the wider scope and Best Value audit, and recommendations, where required.

31. The matters to be reported in the outputs will be discussed with the college for factual accuracy before they are issued. All outputs from the audit will be published on Audit Scotland's website, apart from the Independent Auditor's Report, which is included in the audited annual report and accounts.

32. Target dates for the audit outputs are set by the Auditor General for Scotland. In setting the target dates for the audit outputs, consideration is given to the target date for laying the annual report and accounts, which is 31 December 2025 for colleges.

33. The Independent Auditor's Report and Annual Audit Report are planned to be issued by the target date of 31 December 2025.

Audit timetable

34. Achieving the timetable for production of the annual report and accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. Exhibit 5 includes a timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with the college and reported to those charged with governance, where required.

Exhibit 5
2024/25 audit timetable

Audit activity	College target date	Audit team target date	Relevant committee date
Issue of Annual Audit Plan		5 May 2025	12 May 2025
Annual report and accounts:			
• Submission of Performance Report and Governance Statement to audit team.	13 October 2025		
• Submission of full unaudited annual report and accounts and all working papers to audit team	20 October 2025		
• Latest date for audit clearance meeting	19 November 2025	19 November 2025	
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report		24 November 2025	1 December 2025
• Agreement of audited and unsigned annual report and accounts by Audit and Risk Committee	1 December 2025		
• Approval by the Board of Management and signing of audited annual report and accounts	8 December 2025		8 December 2025
• Signing of Independent Auditor's Report and issue of Annual Audit Report		8 December 2025	

Source: Audit Scotland

Audit fee

35. The college audit fee is determined in line with Audit Scotland's fee setting arrangements. The audit fee for the 2024/25 audit is £76,920 (2023/24: £75,470). In setting the audit fee, it is assumed that the college has effective governance arrangements in place and the complete annual report and accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Other matters

Internal audit

36. The college is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

37. While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2024/25 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

Audit quality

38. Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the Audit Scotland website.

39. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2024/25 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as: governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.

- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

40. To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

41. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

42. Audit Scotland may periodically seek the views of the college on the quality of audit services provided. The audit team would also welcome feedback at any time.

New College Lanarkshire

Annual Audit Plan 2024/25

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 **Email: info@audit.scot**
www.audit.scot

AS.5.0