



Moray College

Planning report to the Audit Committee on the 2023/24 audit
Issued on 26 September 2024 for the meeting on 03 October 2024

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1.1 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 Moray College (“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 previous auditor, 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](#). As part of this work, we will consider the arrangements in place to secure Best Value (BV).

1.2 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 our recent research, informed perspectives and best practice from our work across the wider public sector on pages [26](#) to [35](#) of this plan.

1.3 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, 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.

1.4 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 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 [5](#), the Audit Committee is responsible for:

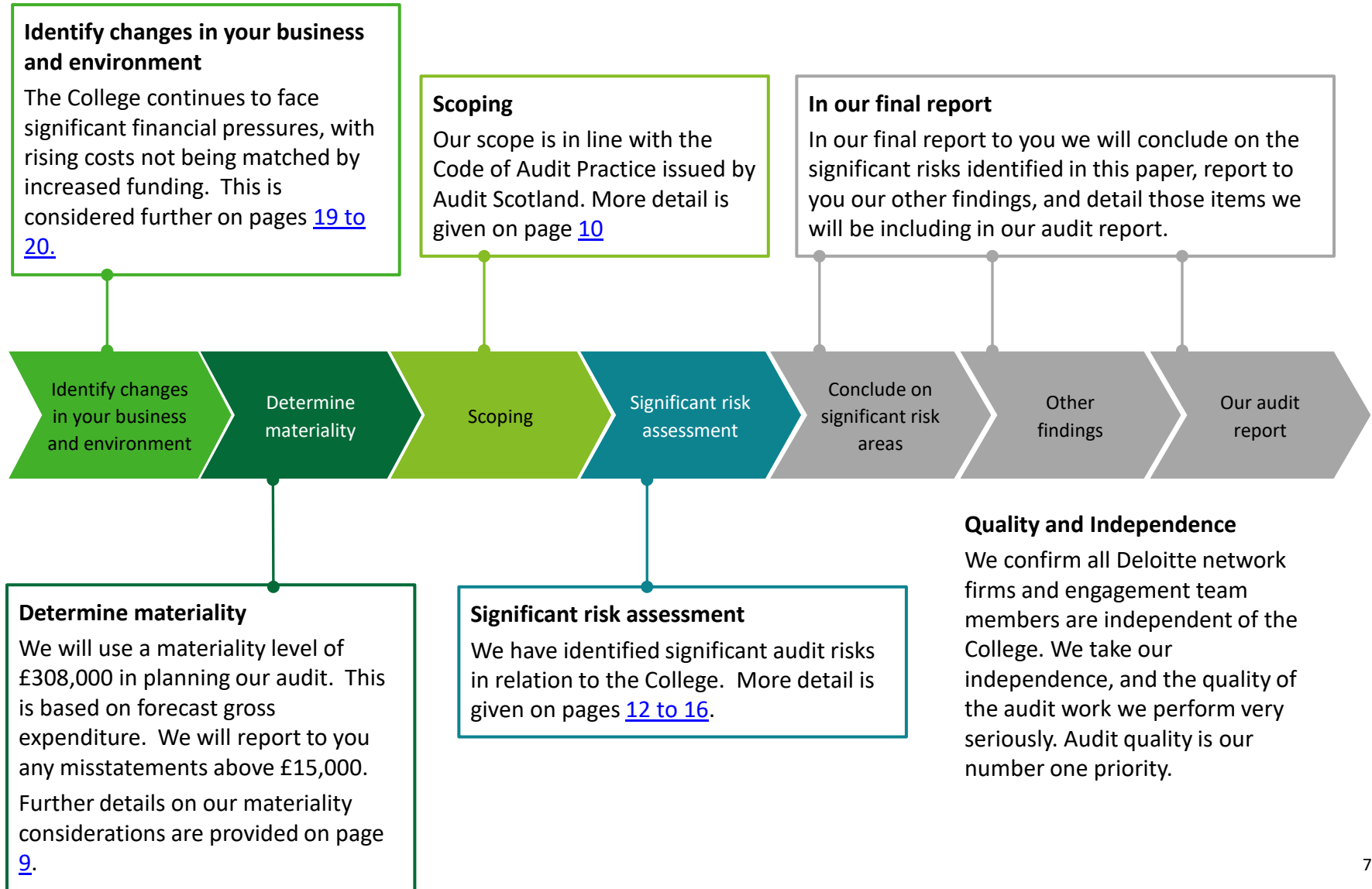
- Reviewing internal financial controls and internal control and risk management systems (unless expressly addressed by a separate board risk committee or by the board itself).
- Monitoring and reviewing the effectiveness of the internal audit function; where there isn't one, explaining the absence, 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.

1.5 An audit tailored to you

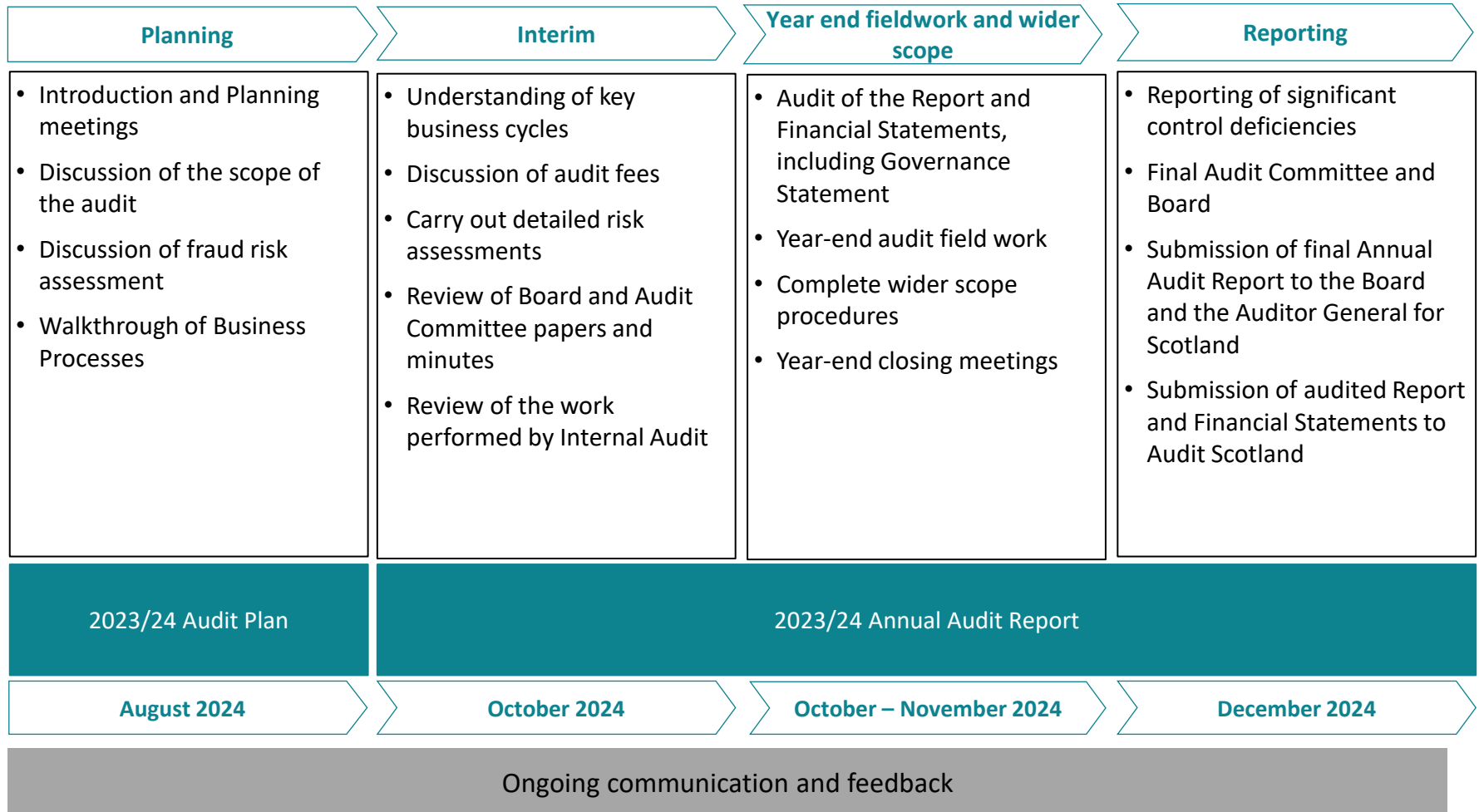
Overview of our audit plan



1.6 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.



1.7 Materiality

Our approach to materiality

Basis of our materiality benchmark

- The audit partner has determined materiality as £308,000 and performance materiality of £215,000, 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 forecast gross expenditure as the benchmark for determining materiality and applied 70% as performance materiality. We have judged expenditure to be the most relevant measure for the users of the accounts.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £15,000.
- We will report to you misstatements below this threshold if we consider them to be material by nature.

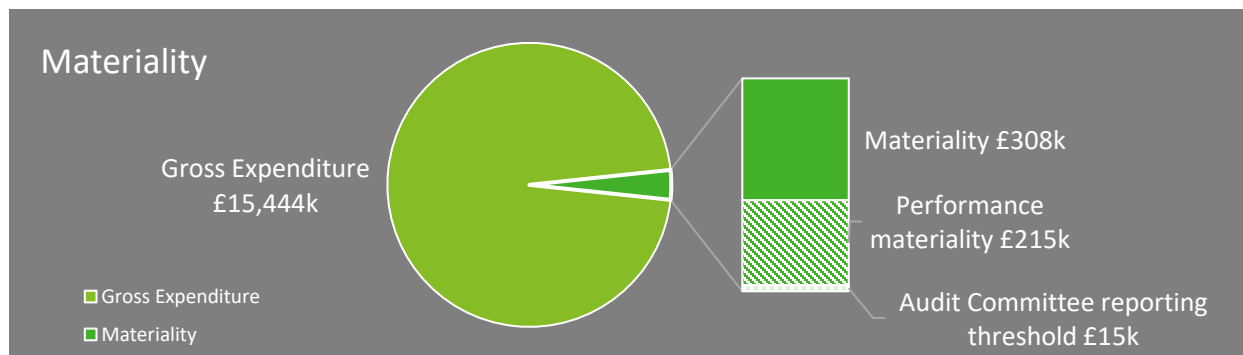
Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance, which states that the threshold for clearly trivial above which we should accumulate

misstatements for reporting and correction to the Audit Committee must not exceed £250,000.

Our Annual Audit Report

We will:

- 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 entity 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.

1.8 Scope of work and approach

Our key areas of responsibility under the Code of Audit Practice

Auditors 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	03 October 2024 13 December 2024 13 December 2024	03 October 2024 31 December 2024 31 December 2024
Wider-scope areas	Annual Audit Plan Annual Audit Report	03 October 2024 13 December 2024	03 October 2024 31 December 2024
Consider and report on Best Value arrangements	Annual Audit Plan Annual Audit Report	03 October 2024 13 December 2024	03 October 2024 31 December 2024

1.9 Scope of work and approach

Our approach

Liaison with internal audit and local counter fraud

The Auditing Standards Board's version of 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 Standards ("FRS102") disclosure checklists in conjunction with the requirements of the Further and Higher Education SORP and 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; and
- Whether the Performance Report and Governance Statement are consistent with the financial statements and have been properly prepared.

2.1 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			13
Risk 2 – Property valuations		DI			14
Risk 3 – Operating within funding provided		DI			15
Risk 4 – Completeness of income		DI			16

Level of management judgement

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

Controls approach adopted

-  Assess design & implementation

2.2.1 Significant risks

Risk 1 – Management override of controls

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.

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;
 - 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.
-

2.2.2 Significant risks

Risk 2 – Property Valuation

Risk identified The College held £30.3m of property assets (land and buildings) at 31 July 2022 which decreased to £29.5m as at 31 July 2023. In 2023/24 the College will perform a full independent valuation of its estate as at 31 July 2024.

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 5 years for the purposes of the financial statements with an interim valuation after 3 years. Land and buildings were valued as at 31 July 2022 (interim valuation) on the basis of depreciated replacement cost by the Colleges appointed external valuer.

Our response

- We will test the design and implementation of key controls in place around the property valuation and impairment assessment performed by management;
- We will engage early with the College, using our valuation specialists to challenge the assumptions applied by management in the valuations.
- We will test the inputs to the valuation and the key asset information provided by the College to the valuer back to supporting documentation.
- We will use our valuation specialists, Deloitte Real Asset Advisory, to review and challenge the appropriateness of the assumptions used in the year-end valuation of the College's Land and Buildings.

2.3 Significant risks (continued)

Risk 3 – Operating within the funding provided

Risk identified

In accordance with Practice Note 10 (Audit of Annual Accounts of public sector bodies in the United Kingdom), 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 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 Moray 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.

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 UHI;
 - Perform focused testing of a sample of accruals made at the year-end; and
 - Performing focused cut-off testing of a sample of invoices received and paid around the year end.
-

2.4 Significant risks (continued)

Risk 4 – Completeness of income

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.

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.
-

2.5 Other areas of audit focus

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

Risk identified Pension Liability

Summary

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

The pension situation has transitioned from a state of liability to an asset position between the financial years 2021/22 and 2022/23.

Mercer Limited 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.

Deloitte response

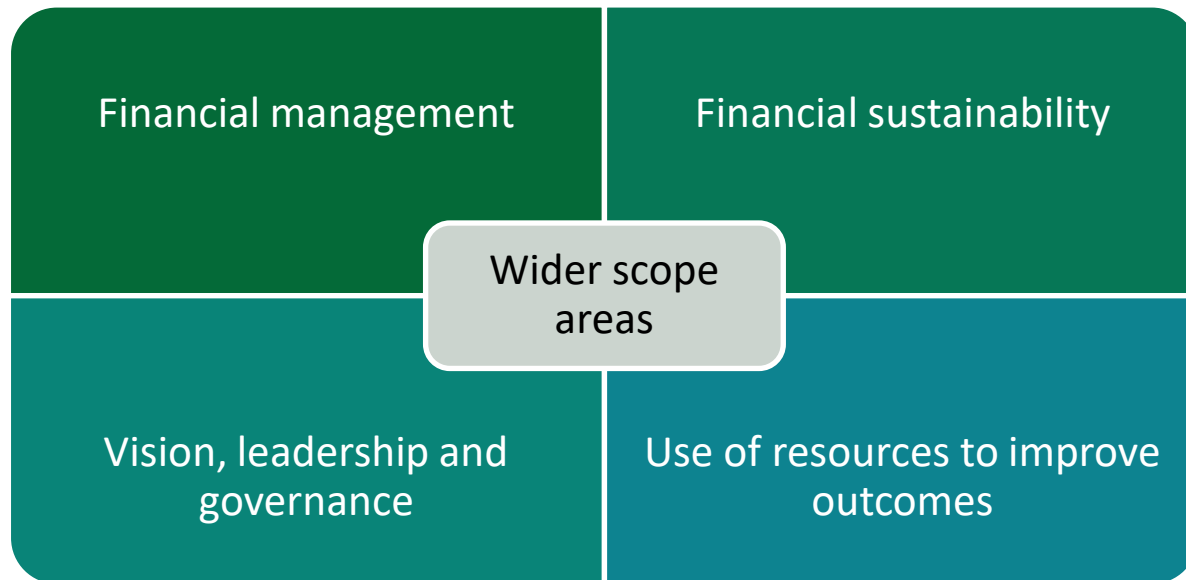
We will perform the following procedures to address the risk:

- Engage early 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 Mercer;
 - 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 with the Pension Fund annual accounts and the Funds 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 FE SORP; and
 - Engage Deloitte's internal pensions experts to assist with the above procedures.
-

3.1 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.



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. Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services. As part of our wider scope audit work, we will consider whether there are organisational arrangements in place in this regard.

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

3.2 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 negotiations 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 Moray College, including any savings the plan has achieved.</p> <p>We will also assess the development of the 2023/24 and 2024/25 budget and the impact on the medium and longer term financial outlook.</p>
Vision, leadership and governance	We note the departure of two key senior staff at Moray College in 2024. The Deputy Principal left the College in February 2024, with no current plans in place to appoint a replacement. The Director of Finance left the College in March 2024, with a replacement in place from May 2024. We note that a replacement was in place from May 2024. There is a risk that changes to the composition of the senior team at the College will create knowledge gaps and have an adverse impact on the culture and working environment of key individuals at the College.	<p>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.</p> <p>We will assess the composition of the Senior Leadership Team at the College in post during the 2023/24 financial year.</p>

3.3 Wider scope requirements (continued)

Significant risks

Area	Significant risks identified	Planned audit response
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 improved outcomes.</p> <p>We will monitor the progress of the financial recovery plan in place at Moray College, including any savings the plan has achieved.</p>

3.4 Wider scope requirements (continued)

Other requirements (continued)

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 Moray College, 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 bodies 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">• Involving the misappropriation or theft of assets or cash which are facilitated by weaknesses in internal control.• Over £5,000.

3.5 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 conflict between Russia and Ukraine.

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 College's operations and corporate reporting include:

- **High energy costs and risk of energy shortages**
- **Rising interest rates**
- **Rising levels of inflation**
- **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, rising levels of inflation, 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.

3.6 Reporting hot topics (continued)

Climate related risks

Deloitte view

The expectations of corporate reporting are increasing. While the focus is primarily on corporates, we highlight these areas where improved disclosures would help meet stakeholder expectations. This is also an area of interest from the Auditor General and Accounts Commission.



Accounting for and reporting of climate-related risks – Considerations

Stakeholder expectations

Stakeholders are clear that climate-related risks could be material to businesses in all sectors. In particular, stakeholders ask for clear, specific and quantified information that describes:

- how the impacts of physical and transition risks have been considered in preparing the financial statements;
- what climate-related assumptions and estimates were used to prepare the financial statements; and
- whether narrative reporting on climate risks and the accounting assumptions are consistent, or an explanation for any divergence.

Climate thematic reports

In July 2022, the [FCA](#) and [FRC](#) published **thematic reviews of Taskforce on Climate Related Financial Disclosures (TCFD) disclosures and climate-related impacts** reported in premium listed entities' financial statements. This follows up on the FRC's [2020 thematic review](#) of climate-related considerations.

The FRC highlighted five broad areas for improvements in climate-change reporting in their thematic review:

- giving more **granular and company specific information** about the effects of climate change on different businesses, sectors and geographies;
- ensuring that the discussion of climate-related risks and opportunities is **balanced**;
- **linking climate-related disclosures**, such as the output of climate-related scenario analysis, with other relevant narrative disclosures in the annual report, such as the business model or strategy;
- explaining how **materiality** has been applied in deciding which climate-related information should be disclosed; and
- ensuring **connectivity between TCFD disclosures and the financial statements** to help investors understand the relationship between climate-related matters and judgements and estimates applied in the financial statements – for example, explaining clearly how different climate-related scenarios and the companies' own net zero commitments have been reflected in the financial statements.

The FRC report also includes disclosure examples and detailed expectations and can be found on the FRC's website [here](#).

3.7 Reporting hot topics (continued)

Climate related risks



Accounting for and reporting of climate-related risks - Action

Governance

The impacts of climate change are a strategic issue that should be on the College agenda and integrated into decision making. We expect entities to have:

- Reviewed their governance, processes and controls for identifying, and responding to, climate-related issues;
- Completed a robust climate assessment including all physical and transition risks;
- Assessed the climate change assumptions used in judgements and estimates in the financial statements;
- Evaluated the appropriateness and consistency of information in the financial statements and narrative disclosures; and
- Prepared a management paper setting out management's climate risk assessment and consideration of the impacts of climate change on the financial statements.

Financial statements

Regarding financial statement disclosures, we expect entities to consider the transparency of information about the climate-related judgements and assumptions. Information should be entity-specific and avoid boilerplate explanations.

The financial statements should clearly disclose:

- What climate-related assumptions have been used in preparing the financial statements;
- How significant climate risks or net zero transition targets have been taken into account in preparing the financial statements;
- Which climate-related scenarios have been considered in sensitivity analysis of climate-related assumptions and how they affect judgements and estimates in the financial statements.

Narrative reporting

We expect the narrative accompanying the financial statements to include the following:

- An explanation of how climate is assessed as a strategic issue.
- Clarity of whether climate change represents a principal or emerging risk and how it is being managed.
- For climate-related targets and metrics, an explanation of how those targets and metrics fit into strategic targets/approach.

3.8 Reporting hot topics (continued)

Cyber risk

Area	Management actions	Impact on the financial statements and annual report	Impact on our audit
Cyber risk	The College's ICT team maintains an Operational Risk Register which is reviewed monthly. An IT Risk Log is also maintained, and the College's IT staff meet monthly to discuss cyber security.	<p>Cyber risk is an increasing area of focus, including a focus for the Auditor General and Accounts Commission. We recommend considering whether any additional disclosure or explanations are appropriate, including discussion of principal risks and uncertainties, or in the Annual Governance Statement.</p> <p>The AGS requires disclosure of how risks to data security are managed and controlled, as well as of any serious information governance incidents.</p>	<p>We will obtain an understanding of the College and its internal controls in relation to cyber as part of our understanding of the College's IT environment.</p> <p>We will make specific enquiries to identify whether a cyber breach has occurred during the period, and evaluate the impact of any cyber incidents, including any potential liabilities arising or impacts on compliance with laws or regulation.</p> <p>We will review the disclosures made for consistency with our understanding from our audit work.</p>

4.1 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 a deep understanding of your business, its environment and of your processes in income and expenditure recognition, payroll expenditure and fixed assets 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, delivered by Pat Kenny (Associate Partner).



Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach.

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.

4.2 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. We would review the effectiveness of its actions to ensure greater consistency.

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 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.

4.3 Audit quality (continued)

Our commitment to audit quality and our system of quality management

Audit quality is at the heart of everything we do and our system of quality management (SQM) supports our execution of quality audits.

The FRC recently promulgated ISQM (UK) 1, a standard that sets out a firm's responsibilities to design, implement and operate a system of quality management for audits, reviews of financial statements, and other assurance or related services engagements.

Led by senior UK leadership, Deloitte UK's ISQM (UK) 1 implementation activities reached successful completion on 15 December 2022.

Deloitte UK performed its first annual evaluation of its system of quality management as of 31 May 2023. This evaluation was conducted in accordance with ISQM (UK) 1 and we concluded our SQM provides the firm with reasonable assurance that the objectives of the SQM are being achieved as of 31 May 2023.

For further details surrounding the conclusion on the operating effectiveness of the firm's SQM, including results of the monitoring activities performed, please refer to the disclosures within Appendix 5 of our publicly available [transparency report](#).



4.4 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

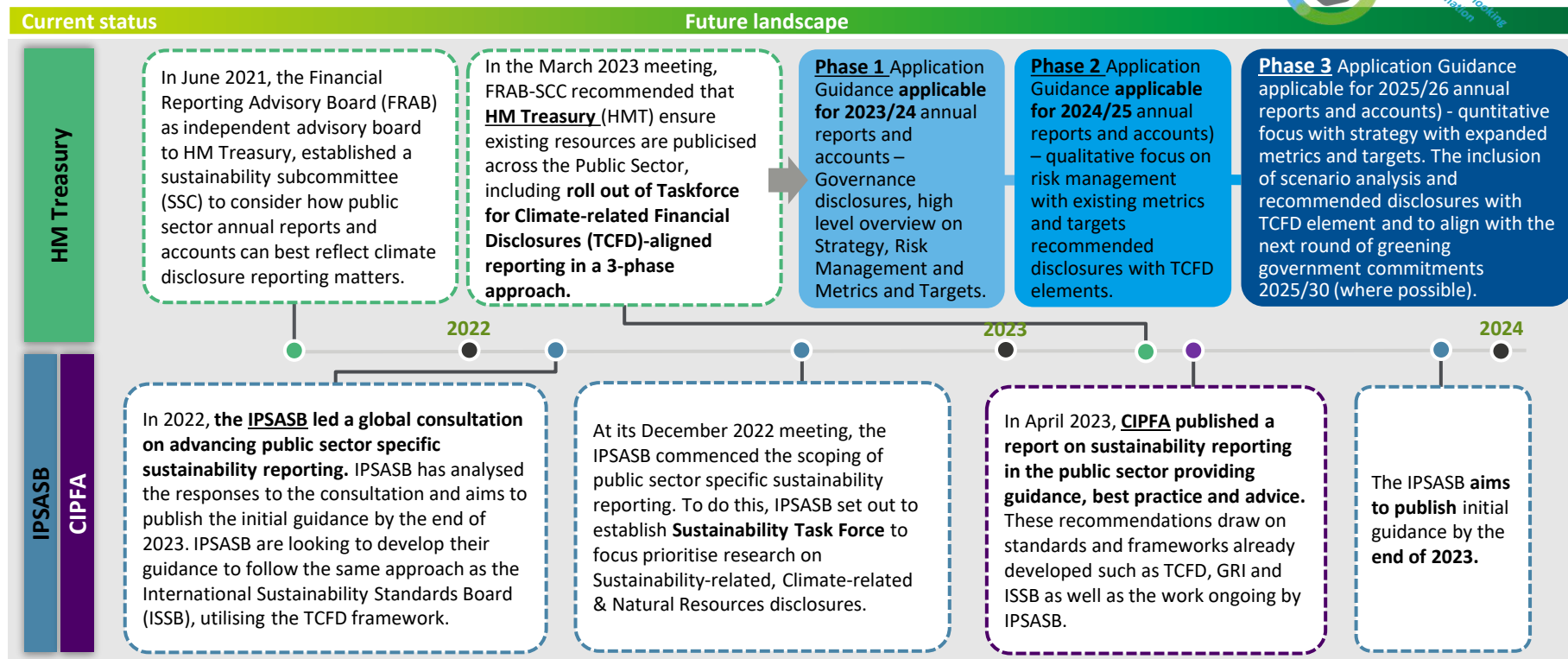
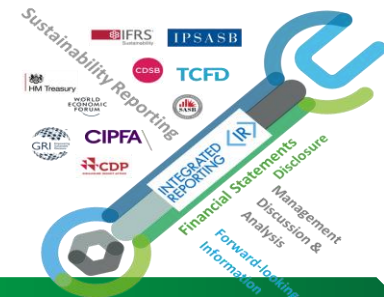
Glasgow | 03 October 2024

Technical and sector developments



5.1 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.

5.2 FRC's corporate reporting highlights

Findings of FRC monitoring work

The FRC's [Annual Review of Corporate Reporting 2022/23](#) provides detail on the areas that gave rise to the highest number of queries during the Corporate Reporting Review (CRR) team's monitoring work. The Highlight section summarises the top 10 issues and included below are those issues with most relevance to the NHS

Area	Companies should ensure that...
Impairment of assets	<p>...key inputs and assumptions applied in impairment testing have been disclosed and explained, including the relevant values and sensitivity analysis, where required. Additional disclosures are required where headroom is low, and heightened uncertainties over inflation, consumer demand and interest rates may drive a wider range of reasonably possible outcomes for future cashflows and discount rates. Users should be able to understand how assumptions are consistent with discussion of uncertainties elsewhere in the report.</p> <p>...impairment testing methodology complies with IFRS, particularly that the grouping of assets into cash generating units (CGUs) is appropriate, the treatment of inflation in the discount rate and cashflows is consistent; and cashflows in 'value in use' calculations reflect the current condition of assets, before any future enhancement expenditure.</p>
Judgements and estimates	<p>...all significant judgements, including those applied in performing the going concern assessment, have been described. It is not sufficient to list the matters requiring judgement.</p> <p>...disclosures about estimates include values, sensitivities and explain significant changes. Sources of estimation uncertainty with a significant risk of resulting in a material adjustment within one year should be clearly distinguished from other estimates.</p> <p>...disclosures are reassessed every year to confirm all relevant matters are captured, immaterial issues are not rolled forward and the assumptions and ranges of reasonably possible outcomes remain appropriate in the company's current circumstances.</p>
Cash flow statements	<p>...a robust pre-issuance review has been performed.</p> <p>We found fewer 'routine' errors this year but continue to identify many issues from basic consistency checks, comparing the cash flow statement to other information in the financial statements. Other common errors we find through our desktop reviews relate to classification, netting, and reporting non-cash movements in the cash flow statement.</p>

5.2 FRC's corporate reporting highlights (continued)

Findings of FRC monitoring work

Area	Companies should ensure that...
Strategic Report	...the strategic report provides a fair, balanced and comprehensive review of the company's development, position, performance and future prospects. This should include unbiased discussion of positive and negative aspects of performance, a clear articulation of the effects of economic uncertainty on the business, and should address significant movements in the financial statements, including those in the cash flow and balance sheet
Financial instruments	...material risks arising from financial instruments are adequately disclosed , along with how these are managed. In particular, this includes risks driven by inflation and rising interest rates, and related hedging arrangements. ...information about banking covenants is provided unless the likelihood of any breach is considered remote.
Revenue	...accounting policies are provided for all significant revenue streams and describe the methodology applied, including the timing of revenue recognition, the basis for recognising any revenue over time, and any significant judgements made in applying those policies. ...they describe inflationary features in customer contracts and the corresponding accounting treatment.
Provisions and contingencies	...they provide clear and specific descriptions of the relevant exposure , including the basis for determining the best estimate of the relevant outflow, and the timeframe over which it is expected to crystallise. ...the calculation and presentation comply with IFRS . Provisions should not be presented net of any reimbursement asset and a consistent approach should be taken in reflecting the effects of inflation in cash flows and discount rates.
Presentation of financial statements	...company-specific information about material accounting policies and transactions is disclosed. It is important that these explain how the policies apply to the company's particular circumstances. ...the financial statements are carefully reviewed . Common issues we found this year included errors in the classification of intercompany receivables balances between current and non-current, and failure to disclose material impairments of receivables on the face of the income statement.
Fair value measurement	...fair value measurements use market participants' assumptions, and provide high quality disclosures. We find most issues in the disclosure of recurring Level 3 measurements, for which the significant unobservable inputs should be quantified and a sensitivity analysis given. Companies should consider the need for specialist third party advice where no internal expertise.

Sector developments

The State of the State report 2024 – Increased demand and lower funding



Background and overview

The 12th edition of Deloitte and Reform's report on the UK public sector was launched in January 2024. Since 2012, we have aimed to create an annual snapshot of what's happening across government and public services to serve as an evidence base for informed discussion.

This year's State of the State finds public attitudes are concerned with NHS waiting lists, immigration and the country's infrastructure – alongside the increased cost of living crisis from prior years.

After years of reacting to crises, the latest State of the State report finds officials across the public sector eager for reform and calling for bold decisions about the future of government and public services.

Some key findings:

- The public expects big government to continue – but could be in for a shock
- Government needs to prioritise, so its aspirations match its resources
- People want public services they can access and complain to when things go wrong
- Digital maturity comes with mature digital problems

Next steps

Full report is available at: [The State of the State 2024 | Deloitte UK](#)

Sector developments (continued)

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 has been shared with management for consideration as part of the preparation for the 2022/23 Annual Report and Accounts and is available at [Good practice in annual reporting - National Audit Office \(NAO\) insight](#).

Appendices



Prior year audit adjustments

Uncorrected misstatements

The following uncorrected misstatements were identified in relation to the prior year audit:

		Debit/(credit) SOCNE £'000	Debit/(credit) in net assets £'000	Debit/(credit) prior year reserves £'000	Debit/(credit) Profit & Loss £'000	If applicable, control deficiency identified
Misstatements identified in current year						
Deferred capital grant	[1]	27	(27)			N/A
No allowance has been made in relation to the Goodwin case.	[2]		(21)		21	N/A
Total		27	(48)		21	

[1] From our testing of deferred capital grants, we note that the amount recognised in the Annual Report and Accounts does not agree to the amount per the supporting information provided by management. We note an under-deferral of capital grant funding of £27k.

[2] No allowance has been made in relation to the Goodwin case in the FY23 liability value. In our view an allowance should be made, as a past service cost. Based on available information, we believe the cost of this would be £21k. We note that this is a judgemental misstatement based on assumptions used by actuarial specialists.

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 valuation, 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:

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.

Fees

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

	£
Auditor remuneration	46,140
Audit Scotland fixed charges:	
• Pooled costs	(4,920)
• Sectoral cap adjustment	(9,910)
Total expected fee	31,310

There are no non-audit fees.

Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the College's policy for the supply of non-audit services or any apparent breach of that policy. 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.

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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