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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.

Introduction

I have pleasure in presenting our planning report to the Audit Committee (“the Committee”) of Moray College (“the College”) for the 2024/25 audit. I would like to draw your attention to the key messages of this paper:

Audit approach

Materiality

The concept of materiality is fundamental to the audit. It is applied throughout the audit to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.

We have determined preliminary materiality of £296k (2023/24: £304k) for the 2024/25 audit. This represents 2% (2023/24: 2%) of expenditure. Based on the operations of the College we selected expenditure as the most appropriate benchmark.

Performance materiality has been set at £207k (2023/24: £212k), representing 70% (2023/24: 70%) of materiality. We will report misstatements found above £14k, or those below £14k if we consider them qualitatively material.

Audit risks

We plan our audit of the financial statements to respond to the risks of material misstatement to transactions and balances and irregular transactions. Based on our initial risk assessment we have identified the following (page 7):

- Operating within funding provided;
- Property valuations; and
- Management override of controls.

In the prior year we also included the completeness of non-recurrent grant income as an audit risk. Reflecting on our understanding and findings from our prior year audit work

Audit risks (continued)

we have concluded that this is no longer a significant risk.

We will update the Audit Committee on any changes concerning our identification of risks.

Areas of Audit Focus

We have identified the pension liability as an area of audit focus.

Audit timetable

Our timetable is summarised on pages 18 and 19, we understand the financial statements are to be approved on 11 of December 2025.

Controls

We do not plan to rely on any controls as part of our audit.

Wider Scope and Best Value requirements

As public money is involved, public audit is 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 and risks.

In our risk assessment, we have considered the arrangements in place for each area, building on any findings and conclusions from prior year, planning guidance from Audit Scotland and developments within the organisation during the year. Our wider scope risks are presented on pages 13 and 14.

Additionally, we will consider the arrangements in place to secure Best Value (BV).

Team

Taking over from Nicola Wright, Sarah McGavin will be the audit engagement lead.

Sarah McGavin
Director

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.

Responsibilities of auditors

Our responsibilities are set out on page 25.

Responsibilities of the Audit Committee

As explained further in the Responsibilities of the Audit Committee slide on page 17, the Audit Committee is responsible for:

- Reviewing internal financial controls and internal control and risk management systems (unless expressly addressed by a separate risk committee or by the Board itself).
- Monitoring and reviewing the effectiveness of the internal audit function.
- 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.

Scope of work and approach

We have the following key areas of responsibility under the Code of Audit Practice

Opinion on Financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISA (UK)") and the Code of Audit Practice issued by Audit Scotland. The College will prepare its accounts in accordance with the Applicable law and UK Generally Accepted Accounting Practice (UK GAAP), FRS 102, Further and Higher Education (Scotland) Act 1992, and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Reporting on other requirements

Our responsibilities also include:

- an opinion on the regularity of expenditure and income;
- an opinion on the audited parts of the Remuneration and Staff Report;
- under the Code of Audit Practice to read the information included in the Performance Report and the Governance Statement, and opine whether they are consistent with the financial statements; and
- In accordance with ISAs (UK) to read the other information accompanying the financial statements and report by exception any material misstatements we identify.

Our reporting will be addressed to the College, the Auditor General for Scotland, and the Scottish Parliament.

Wider-scope requirements, including considering and reporting on Best Value arrangements

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 respect of:

- financial management;
- financial sustainability;
- vision, leadership and governance; and
- use of resources to improve outcomes.

As part of this wider-scope audit work, we also are required to consider whether there are appropriate organisation arrangements in place to secure Best Value in public services. Our approach to our wider-scope audit work is detailed on page 12.

Other reporting requirements

Anti-money laundering - 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.

Fraud returns - We are required to prepare and submit fraud returns to Audit Scotland for all frauds at audited bodies:

- Involving the misappropriation or theft of assets or cash which are facilitated by weaknesses in internal control.
- Over £5,000.

Scope of work and approach (continued)

Our approach

Liaison with internal audit and local counter fraud

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 where they have identified specific material deficiencies in the control environment, consider adjusting our testing so that the audit risk is covered by our work.

Impact of your control environment on our audit

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.

Reliance on controls: 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"), page 20 summarises the controls we plan to examine. We do not take a controls reliance approach to our audit.

Performance materiality: We set performance materiality as a percentage of materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed materiality. We determine performance materiality with reference to factors such as the quality of the control environment and the historical error rate.

Given the findings from our previous audit, we have maintained the same performance materiality benchmark for the current year.

IT environment

A quality IT environment underpins a good control environment, particularly as IT controls are configurable and often preventative in nature. Previously, our IT specialists concluded that the College's IT environment applicable to financial processes is simple in nature and none of our significant audit risk areas are impacted by IT systems.










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 Colleges in preparing high quality drafts of the Annual Report and Accounts, which we would recommend the College complete during drafting.

Significant risks

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Level of management judgement	Management paper expected	Page no.
Management override of controls		DI			<u>8</u>
Operating within funding provided		DI			<u>9</u>
Property valuations		DI			<u>10</u>

Level of management judgement



Significant management judgement



A degree of management judgement



Limited management judgement

Controls approach adopted



Assess design & implementation

Significant risks

Management override of controls

Risk identified	<p>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.</p> <p>Key sources of judgement and estimation uncertainty are inherently the areas in which management has the potential to use their judgment to influence the Report and Financial Statements. We have determined property valuations to be a significant risk.</p>
Our response	<p>In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:</p> <ul style="list-style-type: none">• We will consider the overall control environment;• 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 Annual 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.

Significant risks (continued)

Operating within the funding provided

Risk identified	<p>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.</p> <p>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.</p> <p>The significant risk is therefore pinpointed to the completeness of accruals and the existence of prepayments 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 and prepayments around year end.</p>
Our response	<p>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:</p> <ul style="list-style-type: none">• Evaluating the design and implementation of controls around monthly monitoring of financial performance and the estimated accruals and prepayments made at the year-end;• Obtain independent confirmation of the funding allocated to the College by SFC and UHI;• Perform focused testing of a sample of accruals and prepayments made at the year end; and• Performing focused cut-off testing of a sample of invoices received and paid around the year end.

Significant risks (continued)

Property Valuation

Risk identified	<p>The College held £34.3m of property assets (land and buildings) at 31 July 2024.</p> <p>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.</p> <p>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 valued as at 31 July 2024 (full valuation) on the basis of depreciated replacement cost by the Colleges appointed external valuer. In a year with no revaluation, an impairment review will be performed by the Director of Finance.</p>
Our response	<ul style="list-style-type: none">• 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/test the assumptions applied by management in the valuations.

Other areas of audit focus

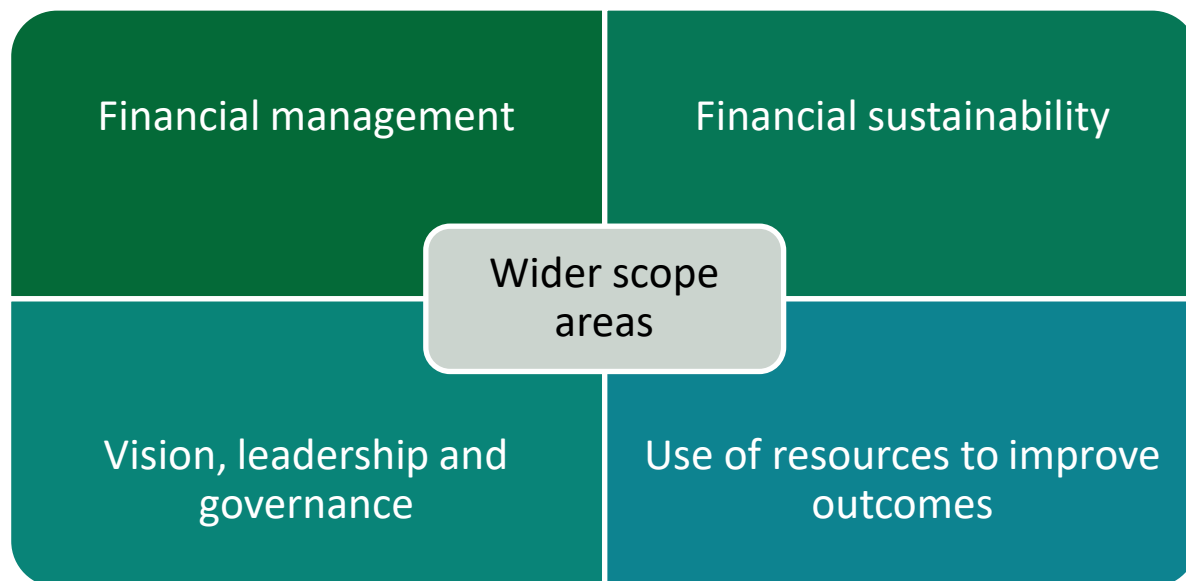
We have identified the below areas of audit interest, although do not consider these to be significant risks

Area of audit focus	Pension Liability
Summary	<p>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).</p> <p>Hymans Robertson 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.</p>
Deloitte response	<p>We will perform the following procedures to address the risk:</p> <ul style="list-style-type: none">• Obtain assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary;• Assess the independence and expertise of the actuary supporting the basis of reliance upon their work;• Review and challenge the assumptions made by Hymans Robertson;• 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 2025;• Review the disclosures within the accounts against the FE SORP; and• Engage Deloitte's internal pensions experts to assist with the above procedures.

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.

Wider scope requirements (continued)

Significant risks

Area	Significant risks identified	Planned audit response
Financial management/ 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. According to the March 2025 Financial Update, the College has successfully completed its financial recovery plan during 2024/25 to address the significant financial sustainability challenges it has been facing. However, there is still a risk that the College will not be able to develop viable and sustainable financial plans and as such we deem this area to be a significant risk.	We will assess the accuracy of the actual vs. budget for the year ended 2024/25 and we will assess the development of the 2025/26 budget and the impact on the medium and longer term financial outlook.

Wider scope requirements (continued)

Other risks

Area	Other risks identified	Planned audit response
Vision, leadership and governance	In the prior year, we noted the departure of two key senior staff at the College in 2024. The Deputy Principal left the College in February 2024, with the Board agreeing that there will be an appointment in this post later in 2025. The Director of Finance left the College in March 2024, with no permanent Director of Finance in post at Moray College. The College did appoint an individual in an interim financial advisory role in from May 2024 on a part time basis until a permanent appointment is made. The College is currently going through the hiring process, and it is anticipated that a permanent Director of Finance will be appointed in the next financial year. 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 2024/25 financial year.</p>
Use of resources to improve outcomes	As discussed under financial sustainability, there is a significant ongoing risk that the College does not have plans in place to manage its finances sustainably. The College has successfully implemented and completed its financial recovery plan during 2024 which addressed significant financial sustainability challenges it was 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.	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 in the forthcoming years in recognition of the ongoing pressure.

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 Annual 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 College, 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

Aberdeen | 26 May 2025

Appendices

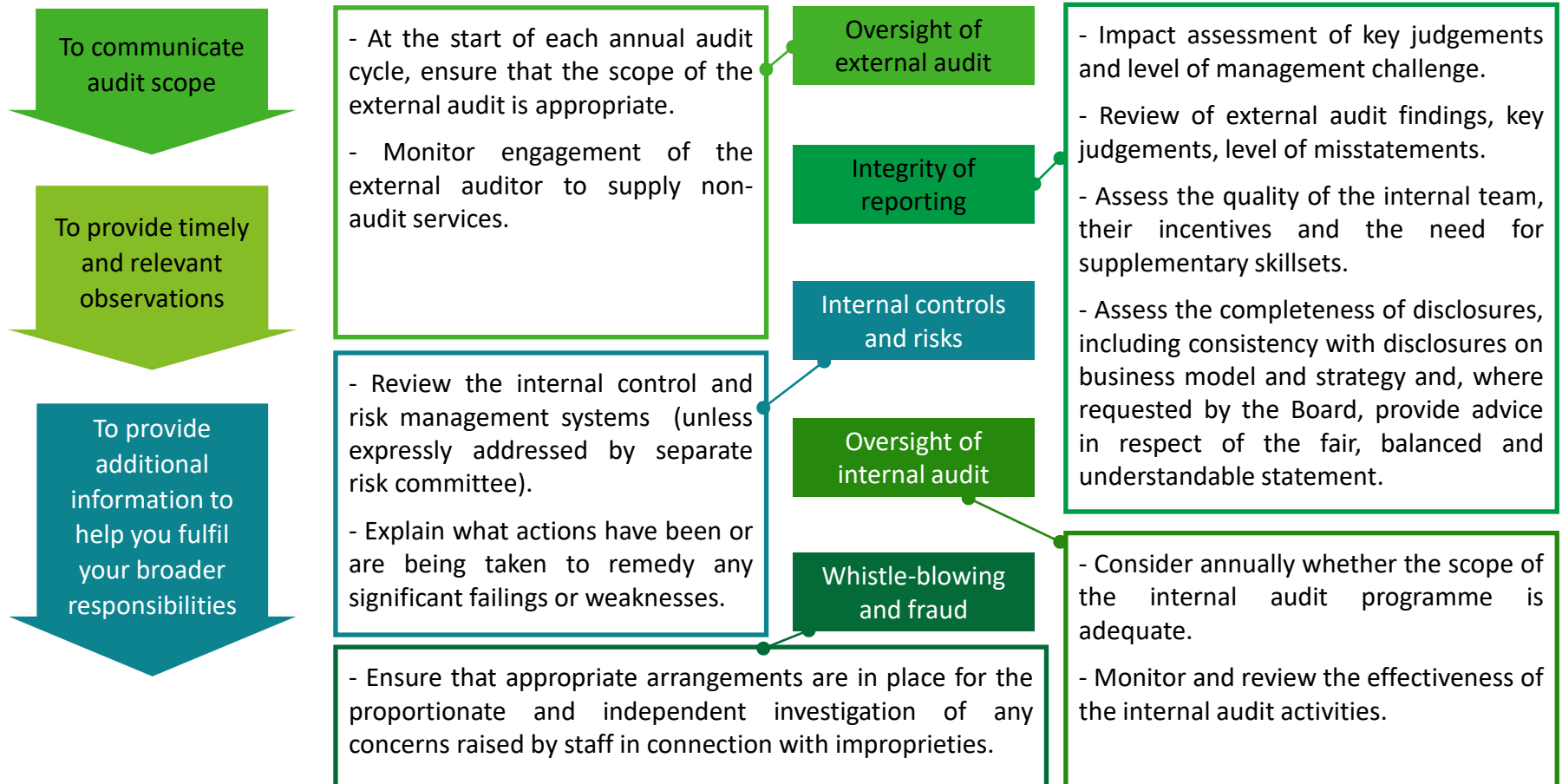


Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

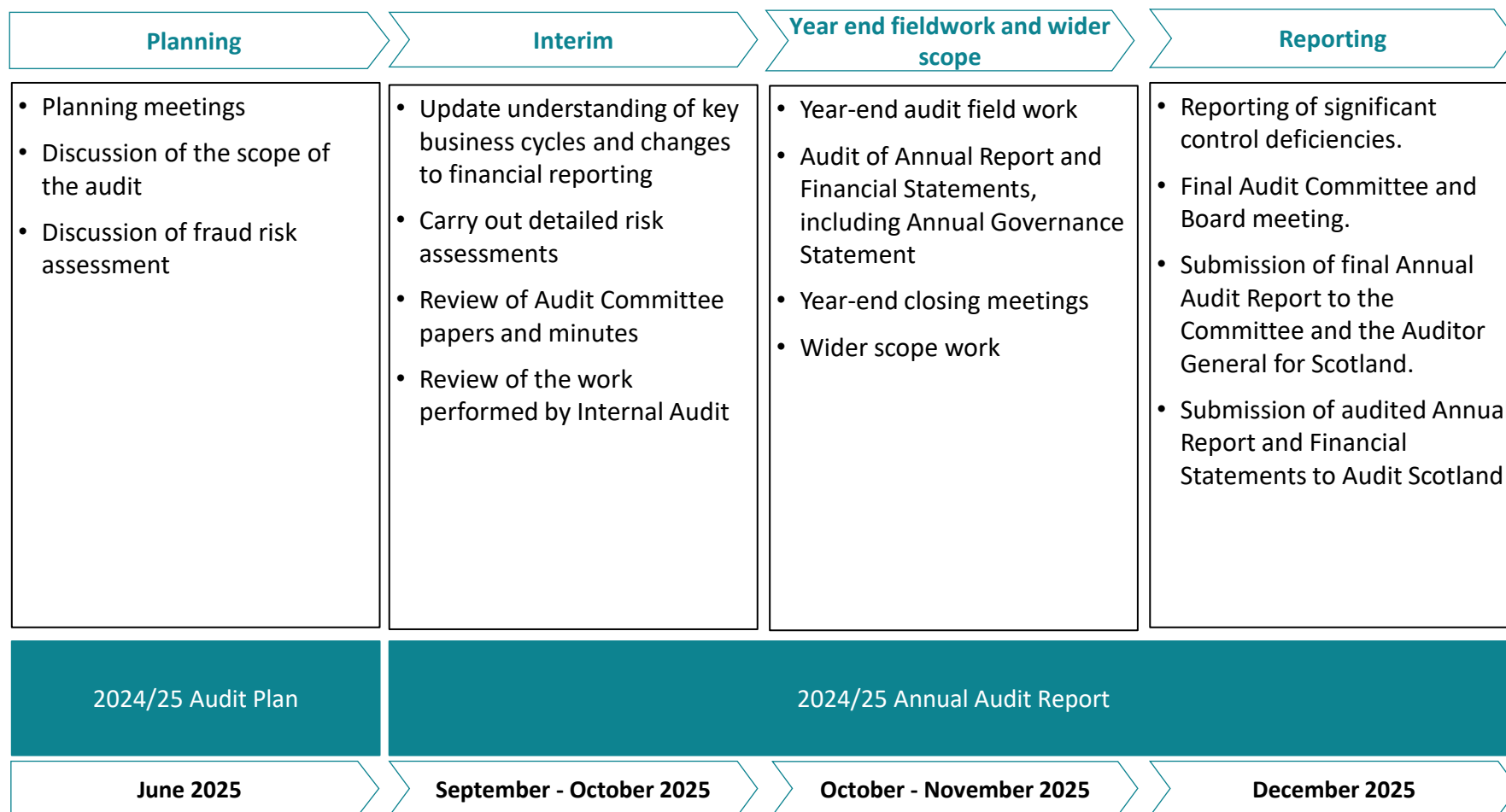
As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there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



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

Continuous communication and reporting (continued)

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 Financial Statements	Annual Audit Plan	3 June 2025	30 June 2025
	Independent Auditor's Report	11 December 2025	31 December 2025
	Annual Audit Report	11 December 2025	31 December 2025
Wider-scope areas	Annual Audit Plan	3 June 2025	30 June 2025
	Annual Audit Report	11 December 2025	31 December 2025

Your control environment

Design and Implementation of controls testing

The following have been identified as the key controls within the College which will be subject to D&I testing. We will assess the effectiveness of the design of controls and evaluate whether controls have been implemented as expected. Our testing will combine enquiry of key staff and walkthroughs to demonstrate the controls taking place.

Control	Risk Addressed	Expected Timing of Testing
1. Approval of journal entries	Management override of controls	Year-end
2. Review of management accounts	Management override of controls	Year-end
3. Review and challenge of pension estimates	Management override of controls	Year-end
4. Monthly review and approval of accruals and prepayments	Operating within funding provided	Year-end
5. Approval of purchase orders	Operating within funding provided	Year-end
6. Property impairment/revaluation review	Property valuation	Year-end

Our approach to quality

Our commitment to audit quality

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

ISQM (UK) 1 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.

The effective ongoing operation of ISQM (UK) 1 has been and remains a key element of Deloitte's global audit and assurance quality strategy and of the UK firm.

Deloitte UK performed its second annual evaluation of its system of quality management as of 31 May 2024. 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 2024.

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



Our approach to quality (continued)

FRC 2023/24 Audit Quality Inspection and Supervision report

Audit quality shapes our vision of the business we want to be, driving our priorities and defining our successes.

In July 2024, the Financial Reporting Council ("FRC") issued individual reports on each of the six largest firms, including Deloitte on Audit Quality Inspection and Supervision, providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2023/24 cycle of reviews. We value the observations raised by both the FRC Supervision teams and the ICAEW Quality Assurance Department ("QAD"), both in identifying areas for improvement and also the ongoing focus on sharing good practice to drive further and continuous improvement.

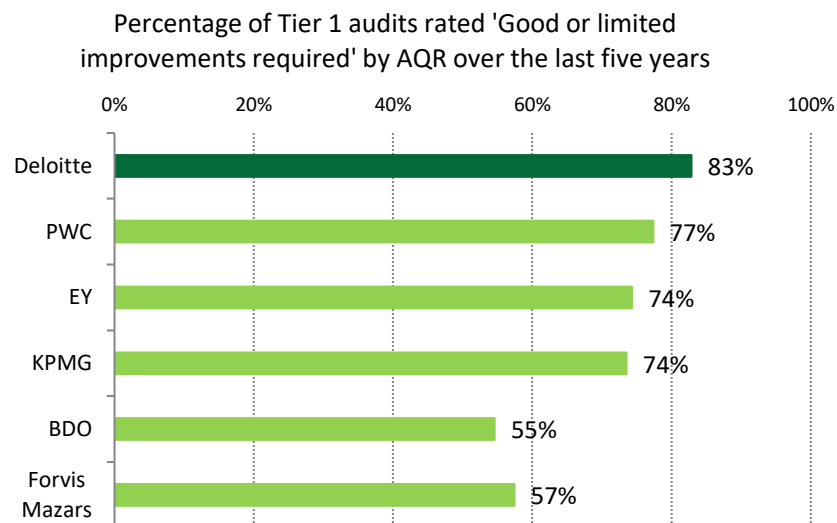
We are proud that the results of our FRC inspections show that 94% (2022/23: 82%) of our public interest audits were rated as 'good' or 'limited improvements' and that 100% (2023: 100%) of our audits reviewed by the ICAEW's QAD were assessed as good or generally acceptable.

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 recognise we still have more we want to do to ensure that we consistently meet the high standards we expect of ourselves. We take inspection, system of quality management ("SoQM") and supervision focus areas seriously and place a significant level of resource and effort into understanding how we continually improve going forward.

We are pleased to see the positive impact of actions taken over the last 12 months to address findings raised by the FRC. We have a reduction in the number of key findings and none of the AQR findings from the 22/23 inspection cycle have recurred as key findings in this year's cycle.

We welcome the breadth and depth of good practice points raised by the FRC and ICAEW, particularly in respect of effective group oversight, contract accounting and the challenge of management, where we have continued to take action to support the high-quality execution of audit work.

All the AQR public reports are available on the [FRC's website](#).



Prior year audit adjustments

Uncorrected misstatements

The following uncorrected misstatements were identified in relation to 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]	19	(19)	-	-	N/A
Admin expenses	[2]	-	-	2	(2)	N/A
No allowance has been made in relation to the Goodwin case.	[3]	-	(22)	-	22	N/A
Total		19	(41)	2	20	

[1] From our testing of deferred capital grants, we noted that the amount recognised in the Annual Report and Financial Statements did not agree to the amount per the supporting information provided by management. We noted an under-deferral of capital grant funding of £19k.

[2] From our testing of admin expenses, we identified £2k of energy costs incorrectly recognised in FY24 which related to FY23. When extrapolated over the remainder of the population, this gives an extrapolated adjustment of £48k.

[3] No allowance had been made in relation to the Goodwin case in the FY24 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 £22k. We note that this is a judgemental misstatement based on assumptions used by actuarial specialists.

Prior year audit adjustments (continued)

Disclosure misstatements

The following uncorrected disclosure misstatement was identified in relation to prior year audit.

Disclosure	Quantitative or qualitative consideration
A reclassification of the interest on the restricted pension surplus currently shown within the remeasurement of the pension asset within other comprehensive income. The total value of this reclassification adjustment is £321k.	£321k

We have considered the above in determining materiality and performance materiality for the current year 2024/25

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 operating within expenditure resource limits 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

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 Chair of the Audit Committee.
- 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 2025 in our final report to the Audit Committee.	
Fees	The expected fee for 2024/25, as communicated by Audit Scotland in January 2025 is analysed below:	
	£	
	Auditor remuneration	48,080
	Audit Scotland fixed charges:	
	• Pooled costs	(6,070)
	• Sectoral cap	(10,100)
	Total expected fee	31,910
	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.	

Sector developments

2024-25 reporting update

Overview and observations

HM Treasury has published updated guidance setting out the principles and standards underpinning sustainability reporting for use in central government. The guidance applies to reporting periods from 2024-25 and is available at: [Sustainability Reporting Guidance 2024-25](#).

The guidance outlines the minimum statutory reporting requirements that must be met, provides some best practice examples and also indicates the underlying principles that should be adopted in preparing the information. The guidance is applicable to all central government bodies that fall within the scope of the Greening Government Commitments (GGCs), and which produce annual reports and accounts in accordance with HM Treasury's Government Financial Reporting Manual (FReM).

The updated guidance emphasises the increasing importance of sustainability reporting and alignment with evolving global standards like the TCFD.

The principal focus of the guidance is on reporting quantitative data on emissions, waste and finite resource consumption.

Next steps

We recommend that management consider the implications of the updated HM Treasury guidance, noting the Scottish Government has still to adopt the guidance fully, for the organisation's sustainability reporting processes and review whether any adjustments to existing reporting practices are necessary to incorporate emerging best practices.

The State of the State 2025

Background and overview

Our latest State of the State reveals key insights from the public and public sector leaders, highlighting shifting priorities and a desire for bold action.

Key takeaways included:

- Cost of living and the NHS remain top concerns, but immigration and border security are rising priorities.
- The public increasingly expects tax rises to address these challenges.
- There's a growing belief that devolution and empowering regions is crucial for growth.
- Investing in skills and adult education is seen as vital for a thriving future.
- The public sector has rolled out some world-leading uses of technology that should be leveraged further.

Our recommendations for a stronger UK:

- Translate policy reviews into credible delivery plans.
- Set a long-term vision for the public sector and its impact on people's lives.
- Capitalise on tech success and drive further innovation.
- Invest in adult skills and further education.
- Improve transparency around resource allocation and demand.

Next steps

Full report is available at: [The State of the State 2025 | Deloitte UK](#)

Sector Developments (continued)

Briefing – Scotland's Colleges 2024

Key messages

The financial situation of Scotland's colleges is worsening, with more colleges reporting deficits in 2022/23 than the previous year.

Key factors include:

- **Decreased Funding:** Scottish Government funding has significantly reduced, both in cash terms and real terms.
- **Staffing Costs:** Staffing represents 70% of college expenditure, leading to voluntary severances and anticipated further reductions.
- **Impact on Learning:** Financial pressures and staff cuts are likely to affect the range and quality of learning provided.

While colleges are working on efficiencies and seeking solutions with the Scottish Funding Council, the lack of clarity from the Scottish Government on future priorities makes planning difficult. Urgent reform of the post-school landscape is crucial for the sustainability of the college sector.

Recommendations

The Scottish Government needs to provide clearer direction and support to ensure the sustainability of the college sector. This involves:

- **Defining Priorities:** Before issuing the 2025/26 funding guidance, the Scottish Government should clearly outline the expected priorities for colleges. This will enable the Scottish Funding Council (SFC) and colleges to allocate resources effectively.
- **Early Engagement:** Early discussions with colleges and the SFC about these priorities are crucial to allow sufficient time for planning and adjustment.
- **Accelerated Reform:** The Scottish Government must speed up the reform of the post-school skills sector. This includes setting clear expectations and timelines for all stakeholders and establishing detailed milestones to track progress by the end of 2024.
- **Sharing Best Practices:** The SFC, in collaboration with Colleges Scotland and individual colleges, should actively identify and share examples of innovation and best practices. This ongoing exchange will help colleges navigate financial challenges and discover new ways of operating.

This is a summary of an [Audit Scotland Publication](#) dated September 2024.

Sector Developments (continued)

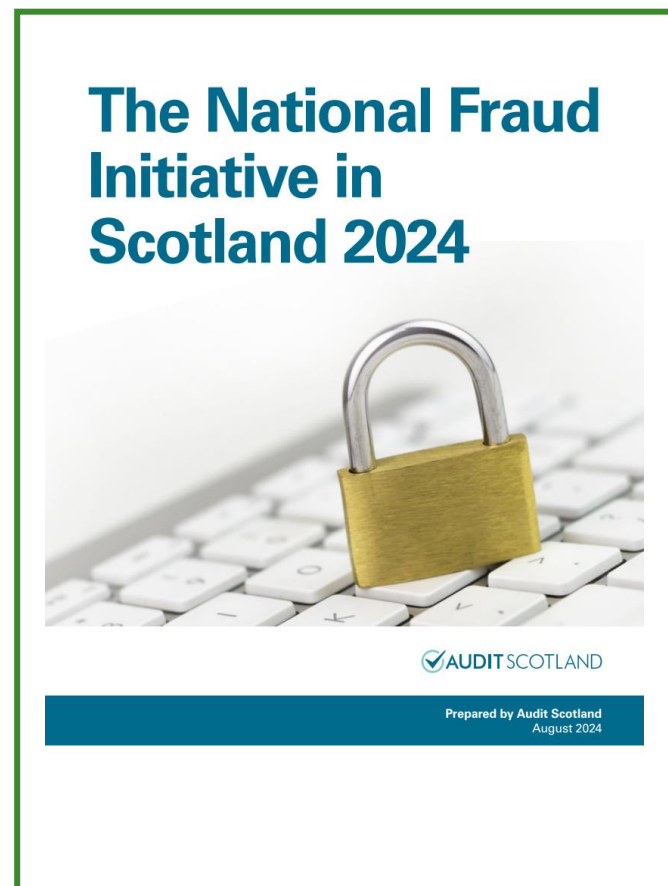
The National Fraud Initiative in Scotland 2024

Key messages

- Fraud remains a significant risk, costing taxpayers and undermining public trust. The NFI is crucial for proactive fraud detection and prevention, especially as public bodies navigate financial pressures.
- NFI efforts resulted in £21.5 million in savings and outcomes, a notable increase from previous years. However, this increase is partially attributed to improved recording practices and methodological changes, making it difficult to draw conclusions about underlying fraud levels.
- While NFI governance and follow-up arrangements are generally sound, there's room for improvement. Notably, resource constraints pose a challenge to effective follow-up on data matches.

Recommendations

- **Resource Allocation:** Ensure adequate resources are available for efficient and effective NFI follow-up activities, aligning with local priorities.
- **Planning & Self-Assessment:** Utilise the NFI Self-Appraisal Checklist during the planning phase for the 2024/25 exercise to identify and address potential areas for improvement.
- **Monitoring & Analysis:** Implement robust monitoring mechanisms for follow-up activities. Investigate and understand the reasons behind low or nil outcomes to enhance future NFI exercises.



This is a summary of an [Audit Scotland Publication](#) dated August 2024.



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