



# Ayrshire College

**External Audit Annual Plan**

**Year ended 31 July 2025**

June 2025



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# Introduction

## Purpose

This audit plan highlights the key elements of our proposed audit strategy and provides an overview of the planned scope and timing of the statutory external audit of Ayrshire College (“the College”) for the year ended 31 July 2025 for those charged with governance.

The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement;
- an audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report;
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes; and
- provision of an Independent Auditor’s Report expressing our opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out conclusions on the wider scope areas.

## Responsibilities of the auditor and the College

The [Code of Audit Practice](#) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and it is a condition of our appointment that we follow it.

Auditor responsibilities are derived from statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, the Code of Audit Practice and guidance from Audit Scotland.

The College has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing a set of annual report and accounts that are in accordance with proper accounting practices. The College is also responsible for complying with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

[Appendix 2](#) provides further details of our respective responsibilities.

## Adding Value through the Audit

All of our clients demand of us a positive contribution to meeting their ever-changing business needs. 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.

## Feedback

Any comments you may have on the service we provide, the quality of our work, and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

This plan has been prepared for the sole use of those charged with governance and management and should not be relied upon by third parties. No responsibility is assumed by Azets Audits Services to third parties.

## Openness and transparency

This report will be published on Audit Scotland's website <http://www.audit-scotland.gov.uk/>

# Audit scope and general approach

## Risk-based audit approach

Our objective when performing an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an independent auditor's report that includes our auditor's opinion.

As part of our risk-based audit approach, we will:

- perform risk assessment procedures including updating our understanding of the College, including its environment, the financial reporting framework and its system of internal control;
- review the design and implementation of key internal controls;
- identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances and disclosures;
- design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

We will undertake a variety of audit procedures designed to provide us with sufficient evidence to give us reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We include an explanation in the auditor's report of the extent to which the audit was capable of detecting irregularities, including fraud and respective responsibilities for prevention and detection of fraud.

## Communication with those charged with governance

Auditing standards require us to make certain communications throughout the audit to those charged with governance. These communications will be through the Audit and Risk Committee.

## Partnership working

We coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

### **Audit Scotland**

Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps identify common priorities and risks, treat issues consistently across the sector, and improve audit quality and efficiency. We share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

Audit Scotland undertakes national performance audits on issues affecting the public sector. We may review the College's arrangements for taking action on any issues reported in the national performance reports which have a local impact. We also consider the extent to which the College uses the national performance reports as a means to help improve performance at the local level.

During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

## Delivering the audit

### **Hybrid audit approach**

We adopt a hybrid approach to our audit which combines on-site visits (as required) with remote working; learning from the better practices developed during the pandemic.

All of our people have the equipment, technology and systems to allow them to work remotely or on-site, including secure access to all necessary data and information. All of our staff are fully contactable by email, phone call and video-conferencing. Meetings can be held over Microsoft Teams or by telephone.

We employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

### Secure sharing of information

We use a cloud-based file sharing service that enables users to easily and securely exchange documents and provides a single repository for audit evidence.

### Regular contact

During the fieldwork phases of our audit, we will arrange regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

### Signing annual accounts

Audit Scotland recommends the electronic signing of annual accounts and uses a system called DocuSign.

Electronic signatures simplify the process of signing the accounts. Accounts can be signed using any device from any location and there is no longer a need for duplicate copies to be signed.

## Materiality

We apply the concept of materiality in planning and performing the audit, and in evaluating the effect of misstatements within the financial statements identified during the audit.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both. The basis for our assessment of materiality for the year is set out in [Appendix 1](#).

**Planning Materiality:** We have set our materiality at 2% of the College's gross expenditure based on the audited annual accounts for 2023/24, resulting in £1.060 million for the College.

**Performance Materiality:** Using our professional judgement, we have assessed performance materiality at 75% of planning materiality, resulting in £0.790 million for the College.

**Specific materiality:** In performing our audit, we apply a lower level of materiality of to the audit of the Remuneration Report and Related Party transactions. In performing our audit of the Remuneration Report, we will consider any errors which cause result in a movement between the relevant bandings on the disclosure table to be material. For Related Party transactions, in line with the standards we will consider the significance of the transaction with regard to both the College and the counter party, the smaller of which will drive materiality considerations on a transaction-by-transaction basis.

**Reporting threshold:** We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. We

have set this at approximately 5% of planning materiality, resulting in £0.053 million for the College.

## Accounting systems and internal controls

The purpose of an audit is to express an opinion on the financial statements. We will follow a substantive testing approach to gain audit assurance rather than relying on tests of controls. As part of our work, we consider certain internal controls relevant to the preparation of the financial statements such that we are able to design appropriate audit procedures. However, this work does not cover all internal controls and is not designed for the purpose of expressing an opinion on the effectiveness of internal controls. If, as part of our consideration of internal controls, we identify significant deficiencies in controls, we will report these to you in writing.

## Going Concern

### Management responsibility

Management is required to make and document an assessment of whether the College is a going concern when preparing the financial statements. The review period should cover at least 12 months from the date of approval of the financial statements. Management is also required to make balanced, proportionate and clear disclosures about going concern within the financial statements where material uncertainties exist in order to give a true and fair view.

### Auditor responsibility

Under ISA (UK) 570, we are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and consider whether there are material uncertainties about the College's ability to continue as a going concern that need to be disclosed in the financial statements.

In assessing going concern, we will consider the guidance published in the Government's Financial Reporting Manual 2024/25 and Practice Note 10 (PN10), which focuses on the anticipated future provision of services in the public sector rather than the future existence of the entity itself.

## Group audit scope and risk assessment

As Group auditor, under ISA (UK) 600 (Revised September 2022) we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The auditing standard for group engagements has been revised, as a result of the key changes that are reflected in the audit plan are:



- Revisions to the definitions of a group and component extend the scope of the ISA to encompass a wider range of group scenarios. This means that a single legal entity could fall under the scope of the group's ISA based on its internal structure, while multiple legal entities may sometimes be defined as a single component.
- There is increased leadership responsibilities and involvement requirements for the group engagement leader, particularly when component auditors are utilised.
- There is a specific requirement for all component auditors to confirm their ability and willingness to comply with the FRC's Ethical Standard.
- The analytical/desktop review designation has been removed from the scope of procedures performed over a component in response to risk.

## Group audit scope

Based on the initial assessment the Group consists of the following entities:

Component	Nature and extent of further audit procedures	Level of response required
Ayrshire College	Full Scope	Full scope statutory audit, as set out in this audit plan.
SAI Aerospace Training Ltd	To be confirmed	To be confirmed

The College has set up a new subsidiary, SAI Aerospace Training Ltd. This is not expected to be operational during 2024/25. As part of our planning work, we have been unable to assess the extent of audit procedures and we will assess this as part of our fieldwork procedures, when the subsidiary is operational.

### Definitions:

**Full Scope:** Design and perform further audit procedures on the entire financial information of the component, beyond procedures completed to review the consolidation.

**Specific Scope:** Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures, beyond procedures completed to review the consolidation.

**None:** No further audit procedures required, beyond procedures completed to review the consolidation.

## Risks at the component-level

The risks identified at the College are set out in this external audit plan. There are no other significant risks identified in any of the other components above in respect of the Group audit.

Note that a component may require a statutory audit under UK or overseas company law irrespective of whether an audit is required for group reporting purposed. Management should therefore satisfy themselves that all UK and overseas company law requirements are adhered to on a company-by-company basis.

## Prevention and detection of fraud or error

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control and;
- are over £5,000.

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

## National Fraud Initiative

The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland and overseen by the Public Sector Fraud Authority 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.

Participating bodies will have submitted datasets for matching in October 2024 and November 2024 and will have received matches for investigation in December 2024 and January 2025.

We will monitor the College's participation and progress and, where appropriate, include references to NFI in our 2024/25 Annual Audit Report.

## Anti-money laundering

We require the College to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

## Wider audit scope work

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability. [Appendix 2](#) provides detail of the wider scope areas of public sector audit work. Our initial risk assessment and scope of work planned for 2024/25 is outlined in the “Wider scope of public audit” section of this plan.

## National risk assessment

Where particular areas of national or sectoral risk have been identified by the Auditor General and Accounts Commission, they will request auditors to consider and report on those risks as they apply at a local level. For 2024/25 no such risks have been specified. Nevertheless, the arrangements for responding to climate change continues to be an area of particular focus.

### Climate change

In 2022/23 we were required to gather information on the College’s response to climate change. Audit Scotland have reviewed the auditor returns assessing climate change and will share the findings from the review with auditors to provide helpful background information for 2024/25 annual audit work.

In addition, Audit Scotland will:

- publish a Good Practice Note on disclosures related to climate change following a review of public bodies’ 2022/23 and 2023/24 annual accounts.
- provide guidance to auditors on auditing climate change disclosures within the 2024/25 annual accounts of public bodies.

## 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.

Through our wider scope audit work, we will consider the arrangements put in place by the Accountable Officer to meet these Best Value obligations.

## Reporting our findings

At the conclusion of the audit, we will issue:

- an independent auditor's report setting out our formal audit opinions within the annual report and accounts, and;
- an annual audit report describing our audit findings, conclusions on key audit risks, judgements on the pace and depth of improvement on the wider scope areas, and any recommendations.

# Financial statements - significant audit risks

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- are required to be treated as significant risks due to requirements of ISAs (UK), for example in relation to management override of internal controls.

## Significant risks at the financial statement level

The table below summarises significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Management override of controls	Audit approach
<p>Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.</p> <p>Specific areas of potential risk include manual journals, management estimates and judgements and one-off</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> <li>• Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals.</li> <li>• Analysing the journals listing and determining the criteria for selecting high risk and/or unusual journals.</li> <li>• Testing high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting documentation for appropriateness, corroboration and to ensure approval has been undertaken in line with the College's journals policy.</li> </ul>

Management override of controls	Audit approach
<p>transactions outside the ordinary course of the business.</p> <p><b>Risk of material misstatement: Very High</b></p>	<ul style="list-style-type: none"> <li>• Gaining an understanding of the key accounting estimates and critical judgements made by management. We will challenge assumptions and consider for reasonableness and indicators of bias which could result in material misstatement due to fraud.</li> <li>• Evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

## Significant risks at the assertion level for classes of transaction, account balances and disclosures

Fraud in revenue recognition	Audit approach
<p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed risk in ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements).</p> <p>The presumption is that the College could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end.</p> <p>In respect of the College's income for Scottish Funding Council (SFC) grant funding, however, we do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate these revenue streams. The risk of fraud in relation to revenue recognition is however present in all other revenue streams.</p> <p><b>Inherent risk of material misstatement:</b></p> <p><b>Revenue (occurrence): Very High</b></p>	<p>We will perform the below procedures based on their value within the financial statements:</p> <ul style="list-style-type: none"> <li>• Documenting our understanding of the College's systems for income to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements.</li> <li>• Evaluating the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems.</li> <li>• Obtaining evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.</li> <li>• Substantively testing material income streams using analytical procedures and sample testing of transactions recognised for the year.</li> </ul>

Fraud in non-pay expenditure	Audit approach
<p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of expenditure around the year end leading to a material misstatement in the reported financial position.</p> <p>In respect of the College's expenditure for payroll, however, we do not consider the expenditure recognition risk to be significant due to a lack of incentive and opportunity to manipulate expenditure of this nature. The risk of fraud in relation to expenditure recognition is however present in all other expenditure streams.</p> <p><b>Inherent risk of material misstatement:</b></p> <p><b>Expenditure (completeness): Very High</b></p> <p><b>Accruals (existence and completeness): Very High</b></p>	<p>We will perform the below procedures based on their value within the financial statements:</p> <ul style="list-style-type: none"> <li>• Documenting our understanding of the College's systems for expenditure to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements.</li> <li>• Evaluating the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems.</li> <li>• Obtaining evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.</li> <li>• Substantively testing material expenditure streams using analytical procedures and sample testing of transactions recognised for the year.</li> <li>• Reviewing accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.</li> </ul>



Valuation of land and buildings (key accounting estimate)	Audit approach
<p>The College held land and buildings with a net book value of £121.3 million at 31 July 2024, with full external valuations last undertaken as at 31 July 2023 and an external desktop valuation undertaken as at 31 July 2024.</p> <p>The valuations involve a wide range of assumptions and source data and are therefore sensitive to changes in market conditions. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of valuers and the methods, assumptions and source data underlying the fair value estimates.</p> <p>These valuations represent a key accounting estimate made by management within the financial statements due to the size of the values involved, the subjectivity of the measurements and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of land and buildings as a significant risk.</p> <p>We will further pinpoint this risk to specific assets, or asset types, on receipt of the draft financial statements and the year-end updated asset valuations to those assets where the in-year valuation movements fall outside of our expectations.</p> <p><b>Inherent risk of material misstatement:</b></p> <p><b>Land &amp; Buildings (valuation): High</b></p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> <li>• Evaluating management processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts and the scope of their work.</li> <li>• Evaluating the competence, capabilities and objectivity of the valuation expert.</li> <li>• Considering the basis on which the valuation is carried out and challenging the key assumptions applied.</li> <li>• Evaluating the reasonableness of the valuation movements for assets revalued during the year, with reference to market data.</li> <li>• For unusual or unexpected valuation movements, testing the information used by the valuer to ensure it is complete and consistent with our understanding.</li> <li>• Ensuring revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct.</li> </ul>

Pension net asset / liability (key accounting estimate)	Audit approach
<p>An actuarial estimate of the pension fund asset/liability is calculated on an annual basis and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities.</p> <p>The calculations involve a number of key assumptions, such as discount rates and inflation and local factors such as mortality rates and expected pay rises. The estimates are highly sensitive to changes in these assumptions and the calculation of any asset ceiling when determining the value of a pension asset. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external experts (the actuary) and the methods, assumptions and source data underlying the estimates.</p> <p>This represents a key accounting estimate made by management within the financial statements due to the size of the values involves, the subjectivity of the measurement and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of the net pension liability/asset as a significant risk.</p> <p><b>Inherent risk of material misstatement:</b></p> <p><b>Pension net asset or liability (valuation): High</b></p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> <li>• Evaluating management's process for the calculation of the estimate, the instructions issued to management's expert (the actuary) and the scope of their work.</li> <li>• Evaluating the competence, capabilities and objectivity of the actuary.</li> <li>• Reviewing the reasonableness of key actuarial assumptions applied by reference to comparative and market data.</li> <li>• Reviewing the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate.</li> <li>• Evaluating whether any asset ceiling was appropriately considered when determining the value of any pension asset included in the financial statements.</li> <li>• Ensuring pension valuation movements for the year and related disclosures have been correctly disclosed.</li> </ul>

Purchase of PFI Asset	Audit approach
<p>The College's PFI contract for the Kilwinning Campus is due to expire on 13 June 2025. This is one of the first PFI assets transferring back to the public sector in Scotland and consideration of the legal and accounting requirements are likely to be complex.</p> <p>The Board intends to purchase the facility at the end of the PFI contract from its provider - KE Projects. The initial associated cost has been included within the College's 2023/24 financial statements as a provision of £2.250 million. However, this amount is subject to further review of the PFI contract and negotiations between the parties.</p> <p><b>Inherent risk of material misstatement:</b></p> <p><b>Expenditure (completeness): High</b></p>	<p>We will perform the below procedures based on their value within the financial statements:</p> <ul style="list-style-type: none"> <li>• Reviewing the controls in place to ensure that the transaction is accounted for in line with the relevant documentation and agreements made by the College and PFI provider.</li> <li>• Examining the accounting, classification and disclosure of the transaction in the financial statements.</li> </ul>

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure." All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as those adopted for the risks identified in this report.

# The wider scope of public audit

## Introduction

The Code of Audit Practice frames a significant part of our responsibilities in terms of four wider scope audit areas:

- Financial sustainability
- Financial management
- Vision, leadership and governance
- Use of resources to improve outcomes.

Our planned audit work against these four areas is risk based and proportionate. Our initial assessment builds upon our understanding of the College's key priorities and risks along with discussions with management and review of board and committee minutes and key strategy documents.

We have identified one significant risk in relation to financial sustainability as set out in the table below. At this stage, we have not identified any significant risks in relation to the other wider scope areas. Audit planning is a continuous process and we will report all identified significant risks, as they relate to the four wider scope areas, in our annual audit report.

## Definitions

We will use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope areas. The text provides a guide to the key criteria we use in the assessment, although not all of the criteria may exist in every case.



## Wider scope significant risks

### Financial sustainability

The College continues to face significant financial challenges, operating within tight financial parameters, and actively continues to plan the measures required to ensure the College is in a long-term sustainable position.

Ayrshire College presented the Financial Forecast Return to the Board of Management in June 2024. The College estimates a deficit totalling £4.625 million for the period between 2024-27. This position is based on pay uplifts in line with the College Employers Scotland full and final offer and the Scottish Government's Public Sector Pay Policy. It also includes an expectation of no other sources of income and no change to the Scottish Government or SFC funding model.

The greatest risks to the College's sustainability are those around levels of funding from SFC, particularly with the removal of the one-off elements funded and the projected "flat cash" position for 2024/25 and beyond. In April 2025 the SFC revised the parameters of its funding model which indicates that the College could lose £2.1m (5.6%) of core teaching funding from 2026/27 onwards. Discussions with the SFC remain ongoing to establish the timing and quantum of the proposed reduction. These discussions are also focussing on the mitigations required to assist the College to facilitate a reduction in its income level.

The College recognises that it has a structural deficit with significant efficiencies requiring to be realised in 2024/25 and in every subsequent year thereafter.

Staff costs continue to be a significant pressure area for the College and a key aspect of the College's ambitious transition plan. With the uncertainty around the public sector pay settlements, any increase in staff costs will have a material impact on the finances of the College. While the College will also have savings from the reduced pension contributions over the period until March 2026, after that period these will increase to 17.5%, so the nature of these savings will be short term.

The continuing and uncertain impact on the College's finances and, ability to deliver savings plans and services in a sustainable manner remains a significant challenge and risk.

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### Our audit response:

During our audit we will review whether the College has appropriate arrangements in place to manage its future financial position. Our work will include an assessment of progress made in developing financially a sustainable plan that reflects the medium- and longer-term impact of cost pressures and that continues to support the delivery of the College's statutory functions and strategic objectives.

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In formulating our audit plan, we identified areas of further focus for our work in other wider scope areas:

## Financial Management

- Whether the College achieves its 2024/25 financial and performance targets.
- Whether the College has appropriate savings plans in place to meet financial and performance targets.
- Whether the SFC guidance on how to allocate the funding between revenue and capital has been followed.

## Vision, leadership and governance

- Whether the planned establishment of a trading subsidiary is supported by appropriate governance, scrutiny and risk management frameworks.
- Whether the College has made appropriate progress against their Strategic Ambition 2024-27
- Whether appropriate governance arrangements are in place in preparation for the PFI asset return under the College's control and operation.
- Whether the new Board and Committee members have been provided with appropriate training to perform their functions effectively.

## Use of resources to improve outcomes

- Whether the College is improving financial and non-financial outcomes.
- Whether the College can evidence a clear link between prioritised spending and improvement against outcomes.
- Whether reporting in the Colleges' annual report and accounts give the readers a comprehensive picture of the College's activities.

## Duty of Best Value

Ministerial Guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within the College.

# Audit team and timetable

## Audit Team

Our audit team will be as follows:

Role	Name	Email
Engagement Lead	Andy Reid	Andy.Reid@azets.co.uk
Engagement Manager	Adrian Kolodziej	Adrian.Kolodziej@azets.co.uk
Engagement Senior	Caitlin Mackenzie	Caitlin.Mackenzie@azets.co.uk

## Timetable

Please find below confirmation of our proposed timetable for the audit as previously discussed with management:

Audit work/ output	Date
Planning and risk assessment	April 2025
Reporting of plan to Audit Committee	10 June 2025
Interim audit	30 June 2025
Receipt of draft accounts and commencement audit fieldwork	6 October 2025
Joint Audit and Risk / Business, Resources and Infrastructure Committee to consider accounts and audit report	18 November 2025
Board meeting to approve accounts for signing	11 December 2025
Target date for submission of signed accounts to Scottish Funding Council	31 December 2025



## Our Requirements

For us to be able to complete our work in line with the agreed fee and timetable, we require the following:

- draft financial statements of a good quality by the deadlines you have agreed with us. These should be complete including all notes, the Annual Performance Report, Accountability Report and the Governance Statement;
- the provision of good quality working papers at the same time as the draft financial statements. These will be discussed in advance to ensure clarity over our expectations;
- the provision of agreed data reports at the start of the audit, fully reconciled to the values in the accounts, to facilitate our selection of samples for testing;
- ensuring staff are available and on site (as agreed) during the period of the audit;
- prompt and sufficient responses to audit queries to minimise delays.

The audit process is underpinned by effective project management to co-ordinate and apply our resources efficiently to meet your deadlines. It is essential that the audit team and the College's finance team work closely together to achieve the above timetable.

# Audit Fee

The quality of audit work is an essential requirement in successfully delivering a fully ISA and Code of Audit Practice compliant audit. Audit Scotland sets an expected audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate unaudited accounts and meets the agreed timetable for audit.

The expected fee is reviewed by Audit Scotland each year, based on Audit Scotland's overall budget proposals. The budget proposal and fee levels (for the 2024/25 audits) have been developed in the context of a challenging economic financial environment and the challenges facing public services.

The 2024/25 expected audit fee is based on applying a 1.9% increase to the 2023/24 expected audit fee. This increase is applied on a sector basis and reflects the conditions of the public sector market.

As auditors we negotiate a fee with the College during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

The expected fee set by Audit Scotland for the 2024/25 audit of the College is £56,400. We propose setting the 2024/25 audit fee above the expected fee to reflect the additional work required for complexities linked to the PFI transactions audit and initial group assessment.

Fee element	2024/25	2023/24
Auditor remuneration	56,400	54,130
Audit remuneration (above expected fee level for risk areas noted above)	3,840	-
Pooled costs	(7,120)	(5,770)
Sectoral cap adjustment	5,790	5,670
<b>Total fee</b>	<b>58,910</b>	<b>54,030</b>

It is our policy to bill for overruns or scope extensions e.g., where we have incurred delays, deliverables have been late or of poor quality, where key personnel have not been available, or we have been asked to do extra work.

# Independence, objectivity and other services provided

## Auditor Independence

We confirm that we comply with the Financial Reporting Council's (FRC) Ethical Standard and are able to issue an objective opinion on the financial statements. We have considered our integrity, independence and objectivity in respect of audit services provided and we do not believe that there are any significant threats or matters which should be brought to your attention.

## Other services

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. We have detailed in the table below the non-audit services provided to the College, the threats to our independence and the safeguards we have put in place to mitigate those threats.

Non-audit service	Fee	Type of threat	Safeguard
VAT advisory services	£9,150	Self-review Management decisions	VAT advisory services are provided by a separate team.



# Appendices



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## Appendix 1: Materiality

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to those charged with governance and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Under ISA (UK) 260 we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA (UK) 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the College and the needs of the users.

When planning, we make judgements about the size of misstatements which we consider to be material, and which provide a basis for determining the nature and extent of our audit procedures. Materiality is revised as our audit progresses, should we become aware of any information that would have caused us to determine a different amount had we known about it during our planning.

Our assessment, at the planning stage, of materiality for the year ended 31 July 2025 was calculated as follows.

	£
<b>Overall materiality for the financial statements</b>	1,060,000
<b>Performance materiality (75% of materiality)</b>	790,000
<b>Trivial threshold (5% of materiality)</b>	53,000
<b>Materiality</b>	<p>Our initial assessment is based on approximately 2% of the College's gross expenditure as disclosed in the 2023/24 audited annual accounts. We consider this benchmark to be the principal consideration for the users of the financial statements when assessing financial performance of the College.</p> <p>The financial statements are considered to be materially misstated where total errors exceed this value.</p>
<b>Performance materiality</b>	<p>Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions,</p>

	<p>or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.</p> <p>Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceeds overall materiality.</p>
<b>Trivial misstatements</b>	<p>Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p> <p>Individual errors above this threshold are communicated to those charged with governance.</p>

In addition to the above, we consider any areas for specific lower materiality.

We have applied a lower materiality threshold for disclosures within the Remuneration Report to Senior Management and Board Member Remuneration Tables. Due to the public interest in senior remuneration disclosures, we apply specific audit procedures to this work and set a lower materiality level for this area.

We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be applicable for senior remuneration disclosures. We evaluate errors in the remuneration report for both quantitative and qualitative factors against this lower level of materiality. We will apply heightened auditor focus in the completeness and clarity of disclosures in this area and will request amendments to be made if any errors would alter the bandings reported for any individual.

## Appendix 2: Responsibilities of the Auditor and the College

### The Auditor General and Audit Scotland

The Auditor General for Scotland is a Crown appointment and independent of the Scottish Government and Parliament. The Auditor General is responsible for appointing independent auditors to audit the accounts of the Scottish Government and most Scottish public bodies, including Colleges, and reporting on their financial health and performance.

Audit Scotland is an independent statutory body that co-ordinates and supports the delivery of high-quality public sector audit in Scotland. Audit Scotland oversees the appointment and performance of auditors, provides technical support, delivers performance audit and Best Value work programmes and undertakes financial audits of public bodies.

### Auditor responsibilities

#### Code of Audit Practice

The Code of Audit Practice (the [2021 Code](#)) describes the high-level, principles-based purpose and scope of public audit in Scotland.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Auditor General and it is a condition of our appointment that we follow it.

#### Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the College and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

#### Wider scope audit work

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 broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

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## Financial management



Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

### **Auditor considerations**

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

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## Financial sustainability



Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

### **Auditor considerations**

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

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## Vision, leadership and governance

Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.



### **Auditor considerations**

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

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## Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.



### **Auditor considerations**

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

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## Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework 2024](#)

The most recent audit quality report can be found at [Quality of public audit in Scotland: Annual report 2023/24 | Audit Scotland](#)

## College responsibilities

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

Area	College responsibilities
<b>Corporate governance</b>	<p>The College is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
<b>Financial statements and related reports</b>	<p>The College has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of the financial position and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support the balances and transactions in its financial statements and related disclosures;</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and</li> <li>• preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements.</li> </ul> <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p>

Area	College responsibilities
	<p>The College is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The College is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<b>Standards of conduct for prevention and detection of fraud and error</b>	<p>The College is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<b>Financial position</b>	<p>The College is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• Plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>
<b>Best value</b>	<p>The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value. Accountable Officers are required to ensure accountability and transparency through effective performance reporting for both internal and external stakeholders.</p>

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