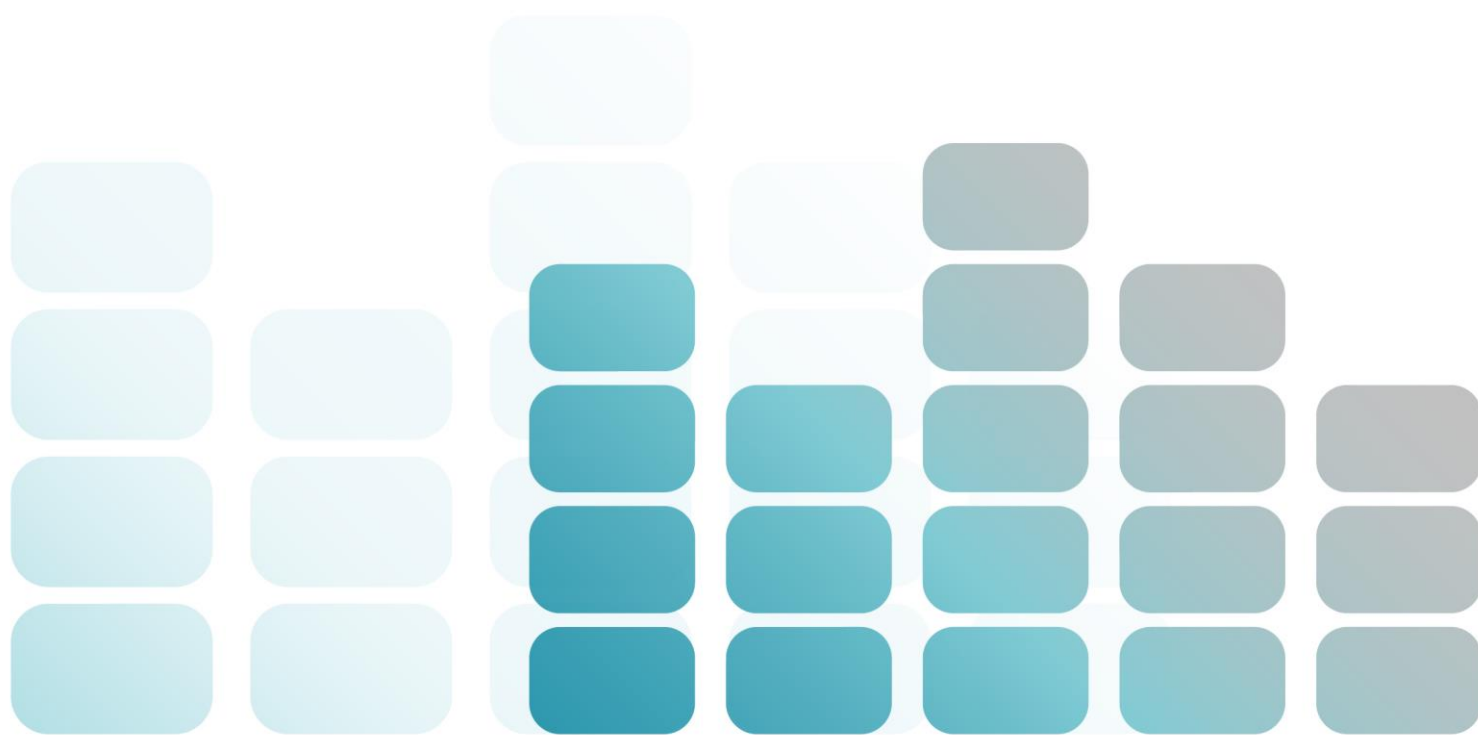


North East Scotland College

Annual Audit Plan 2024/25



Prepared for North East Scotland College
May 2025

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Introduction

Purpose of the Annual Audit Plan

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

Appointed auditor and independence

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

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

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

Audit scope and responsibilities

Scope of the audit

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

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

Responsibilities

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

Auditor's responsibilities

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

The college's responsibilities

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

- Establishing arrangements to ensure the proper conduct of its affairs.

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

Audit of the annual report and accounts

Introduction

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

Materiality

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

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

12. The materiality levels determined for the audit of the college and its group are outlined in [Exhibit 1](#). Based on our assessment of the group (refer paragraph 24), we did not consider it necessary to set separate materiality values for the college's group accounts.

Exhibit 1

2024/25 Materiality levels for the college and its group

| Materiality | Amount |
|--|--------------|
| Materiality – based on an assessment of the needs of users of the financial statements and the nature of the college's operations, the benchmark used to determine materiality is gross expenditure based on the audited 2023/24 financial statements. Materiality has been set at 2% of the benchmark. | £1.1 million |

| Materiality | Amount |
|--|----------|
| Performance materiality – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 65% of planning materiality. | £700,000 |
| Reporting threshold – all misstatements greater than the reporting threshold will be reported. | £55,000 |

Source: Audit Scotland

Key audit matters

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

14. In determining key audit matters, auditors consider:

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

15. The matters determined to be key audit matters will be communicated in the Annual Audit Report. [Exhibit 2, page 8](#) outlines the significant risks of material misstatement to the financial statements that have been identified, including those that have greatest impact on the planned audit procedures and require most attention when performing the audit.

Significant risks of material misstatement to the financial statements

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

17. Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in Exhibit 2. These are the risks which have the greatest

impact on the planned audit approach, and the planned audit procedures in response to the risks are also outlined in Exhibit 2.

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

Exhibit 2

Significant risks of material misstatement to the financial statements

| Risk of material misstatement | Planned audit response |
|--|--|
| <p>1. Fraud caused by management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> | <p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over journal entry processing, make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments and consider the need and extent of detailed journal entry testing. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accruals and prepayments to ensure transactions are recorded in the correct financial year. |

| Risk of material misstatement | Planned audit response |
|---|---|
| <p>2. Estimation in the valuation of property, plant and equipment</p> <p>A full valuation is due to be undertaken in 2024/25 by an external valuer. At 31 July 2024, the value of the college's land and buildings was £108 million.</p> <p>There is a significant degree of subjectivity in these valuations as they are based on specialist assumptions. Changes in the assumptions used can materially impact on the valuation calculations.</p> | <p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over the valuation process. • Evaluate the competence, capabilities, and objectivity of the valuer. • Review the information provided to the valuer and assess this for completeness and accuracy. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the appropriateness of the key data and assumptions used in the 2024/25 valuation process, and challenge these where required. |
| <p>3. Finance capacity</p> <p>Following a review of the college's leadership structure, a new post of Assistant Principal Finance and Estates is being created. Two former Financial Controller roles have been combined into a new Head of Finance role. While these posts are intended to strengthen financial stewardship and reporting in due course, they are currently vacant. This creates additional pressures on the finance team in the run up to the financial year end and the preparation of the annual report and accounts for audit.</p> <p>We previously commented on a relatively small finance team. This combined with the loss of skills and experience in recent weeks following the departure of the former financial controllers may adversely impact on the delivery of the 2024/25 annual report and accounts and supporting working papers. There may also be implications for the timetable for approving and signing the audited annual report and accounts.</p> | <p>The audit team will:</p> <ul style="list-style-type: none"> • Hold regular discussions with the Vice Principal Finance and Resources on planned interim arrangements and permanent recruitment plans. • Agree a timetable for carrying out interim and year end audit procedures. |

Source: Audit Scotland

Other areas of audit focus

19. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements including group accounts. Based on our assessment of the likelihood and magnitude of the risks, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

20. Our assessment of such risks includes the provision of approx. £4 million to cover the college's share of the national middle management and support staff job evaluation scheme costs. The scheme has been the subject of ongoing discussions and negotiations since 2018/19 when the initial calculations were prepared. While there have been some annual updates, the basis of the calculations has remained unchanged. With the passage of time, changes in the economic climate and college restructuring, there is a risk that the underlying assumptions are no longer valid and the provision may be materially misstated. We will continue to monitor developments in national negotiations and review any further guidance provided by the Scottish Funding Council in respect of this matter.

Group audit

21. As group auditors, we are required under ISA (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

22. As the parent in the group, the college prepares group financial statements covering itself and its subsidiary, Aberdeen Skills and Enterprise Training Ltd. Audit procedures have been undertaken to identify if there are any risks of material misstatement to the group financial statements, or any components where audit procedures are required for the purposes of the group audit. The outcome from these procedures is outlined in [Exhibit 3, page 11](#).

23. We will be liaising with the component auditor as appropriate to agree group audit instructions and set expectations around any potential audit procedures. We are currently planning to take assurance on tuition fees and other operating costs from the work of the component auditor and undertake analytical procedures in respect of staff costs. We will also consider the assurances the college obtains for its group accounts including year-end reconciliations and the consolidation process. These matters will be kept under review as the audit progresses.

24. Group income, expenditure, assets, and liabilities are not significantly different from those included in the college's single entity accounts and therefore we did not consider it necessary to set separate materiality

values for the group accounts. Materiality levels are set out in [Exhibit 1, page 6](#).

Exhibit 3

Outcome of risk assessment procedures on the group audit

| Group component | Accounting treatment | Risk of material misstatement | Audit procedures required | Component Auditor |
|--|--------------------------------------|---|--|-------------------|
| North East Scotland College | Consolidated on a line-by-line basis | Yes – Exhibit 2 | Yes – full scope audit | Audit Scotland |
| Aberdeen Skills & Enterprise Training Ltd (ASET) | Consolidated on a line-by-line basis | No, but is material to group financial statements | Yes – analytical procedures and use of the work of the component auditor in respect of material transaction streams. | Hall Morrice LLP |

Source: Audit Scotland

Wider scope and Best Value

Introduction

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

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

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

Duty of Best Value

27. The [Scottish Public Finance Manual](#) (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. [Best Value in public services: guidance for Accountable Officers](#) is issued by Scottish Ministers and sets out their duty to ensure that arrangements are in place to secure Best Value in public services.
28. Consideration of the arrangements the college has in place to secure Best Value will be carried out, and a conclusion reported in the Annual Audit Report.

Significant wider scope risks

29. The risk assessment process has identified significant risks in the wider scope areas as outlined in [Exhibit 4](#). This also includes the planned audit procedures in response to the risks.

Exhibit 4
Significant wider scope risks

| Description of risk | Planned audit response |
|--|--|
| <p>Financial sustainability</p> <p>The college’s 2023/24 Financial Forecast Return (FFR) showed an underlying cumulative deficit of £1.6 million for the three years to July 2027. Since submitting the FFR, the college’s financial performance has improved, an underlying surplus in 2023/24 and a projected surplus in 2024/25. A recent five-year scenario planning exercise reflected an improving position through a mix of cost savings and additional income projections.</p> <p>While the college will continue to face financial challenges in meeting its savings targets due to limited increases in funding from the Scottish Funding Council and a need to fund future payment awards, current projections provide a more positive position.</p> | <p>The audit team will:</p> <ul style="list-style-type: none">• Review budget update reports to monitor forecast outturns including progress with savings plans.• Review financial plans and assess the appropriateness of assumptions.• Consider the extent of alignment between financial plans and the college’s strategic plan and priorities. |

Source: Audit Scotland

Reporting arrangements, timetable and audit fee

Audit outputs

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

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

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

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

Audit fee

33. The audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for the 2024/25 audit is £64,870 (2023/24 £63,650).

34. In setting the audit fee, it is assumed that the college has effective governance arrangements in place and the complete annual report and accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Audit timetable

35. Achieving the timetable for production of the annual report and accounts, supported by complete and accurate working papers, is critical to delivery of the audit in line with agreed target dates. [Exhibit 5](#) includes a proposed timetable for the audit which is dependent on a date for the Audit and Risk Committee meeting in November being confirmed.

Exhibit 5

2024/25 audit timetable (tbc)

| Audit activity | College target date | Audit team target date | Audit and Risk Committee date |
|--|---------------------|------------------------|-------------------------------|
| Issue of Annual Audit Plan | | 31 May 2025 | 28 May 2025 |
| Annual report and accounts: | | | |
| • Submission of unaudited annual report and accounts and all working papers to audit team | 29 September 2025 | - | - |
| • Latest date for audit clearance meeting | | 5 November 2025 | - |
| • Issue of draft Annual Audit Report to officers for comment | - | 10 November 2025 | - |
| • Agreement of audited and unsigned annual report and accounts | | 19 November 2025 | - |
| • Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report to Audit and Risk Committee | | 19 November 2025 | 26 November 2025 |
| • Approval by those charged with governance and signing of audited annual report and accounts | - | - | 26 November 2025 |
| • Signing of Independent Auditor's Report and issue of Annual Audit Report | - | By 31 December 2025 | - |

Source: Audit Scotland

Other matters

Internal audit

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

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

Audit quality

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

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

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as: governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

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

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

North East Scotland College

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Audit Scotland, Woodhill House Annexe, Westburn Road, Aberdeen AB16 5GB
Phone: 0131 625 1500 **Email: info@audit.scot**
www.audit.scot