

A decorative graphic on the left side of the page. It consists of a large blue triangle pointing right, followed by a series of overlapping triangles in shades of grey, green, and blue, creating a sense of movement and depth.

Ayrshire College

External Audit Annual Plan

Year ended 31 July 2026

June 2026

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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 2026 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 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 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 Audit 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 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 also be required to provide information to Audit Scotland to support the national performance audits and 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 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 'Inflo' 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.

Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements.

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.

Our determination of materiality:

- Informs the scope of our audit and audit procedures
- Informs the sample sizes required for substantive testing
- Informs our consideration in evaluation the effect of actual and projected misstatements in the financial statements

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. 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, adjusted for exceptional expenditure, based on the audited financial statements for 2024/25, resulting in £1.1 million for the College.

Performance Materiality: Using our professional judgement, we have assessed performance materiality at 75% of planning materiality, resulting in £0.825 million for the College.

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 £0.055 million for the College.

Specific Materiality: We also consider materiality qualitatively. This includes areas where users are more sensitive to any error. As such we consider the Remuneration and Staff Report and Related Parties disclosures as material by nature.

In performing our audit, we will consider any errors which result in a movement between the relevant bandings on the disclosure table to be material.

For Related Party transactions, 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.

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 are 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 2025/26 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.

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. It uses technology to compare information held by different public bodies, and on different financial systems that might suggest the existence of fraud or error.

Participating bodies submitted datasets for matching in October 2024 and November 2024 and 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 2025/26 Annual Audit Report.

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 2025/26 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, they will request auditors to consider and report on those risks as they apply at a local level. For 2025/26 no such risks have been specified.

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.

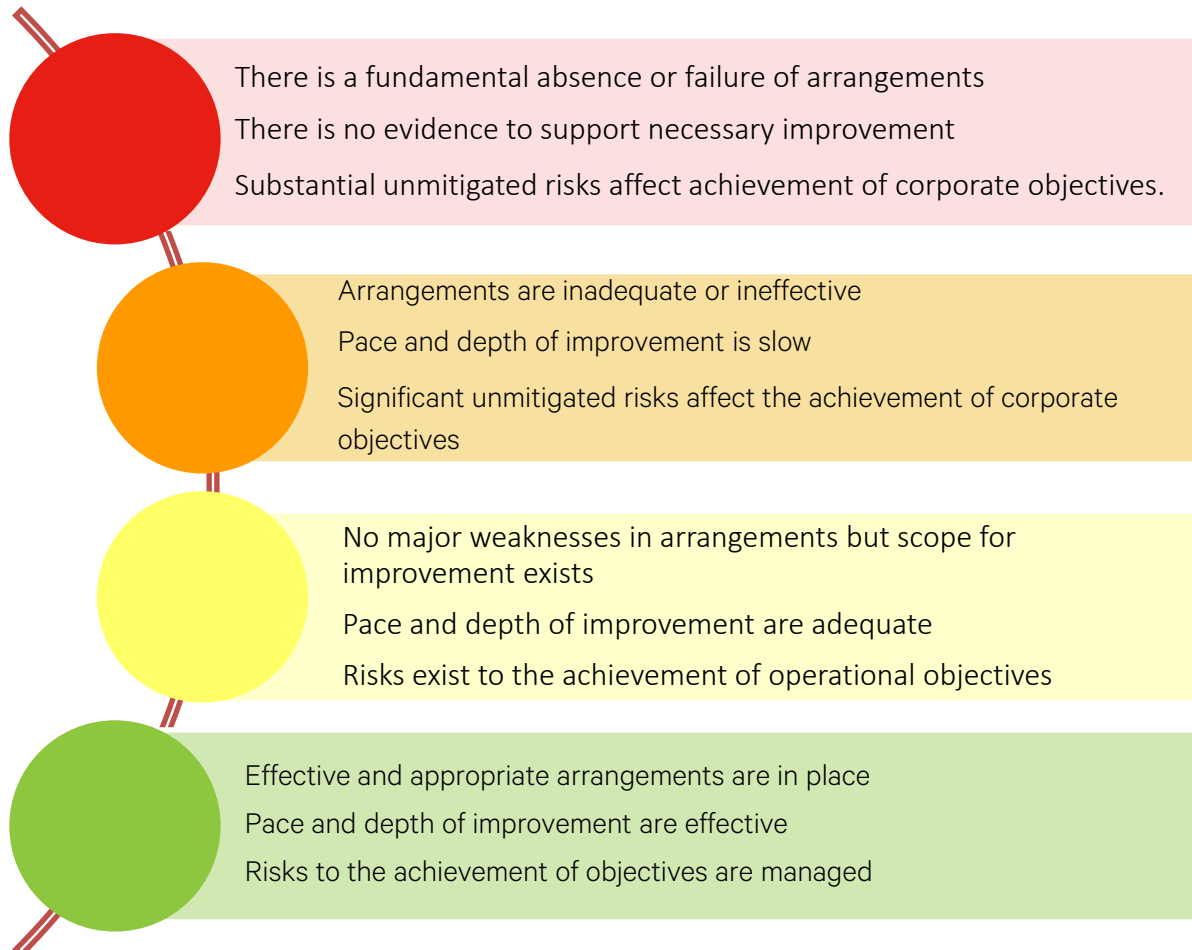
Reporting our findings

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.

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.



Group audit scope and risk assessment

As Group auditor under ISA (UK) 600, 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.

Group audit scope

The Group consists of the following entities:

Component	Risk of material misstatement to the Group?	Scope	Planned audit approach	Risks identified	To be carried out by
Ayrshire College	Yes	Full Scope	Full scope statutory audit, as set out in this audit plan.	As set out in section: “Financial Statements-significant and other risks of material misstatement” .	Azets
SAI Aerospace Training Ltd	No	None	No procedures planned.	None	Not applicable

The College has set up a new subsidiary, SAI Aerospace Training Ltd. The transactions in this subsidiary for 2025/26 are not expected to be material. As such, the subsidiary is not expected to be consolidated in the College’s accounts for 2025/26 and single entity accounts are expected to be prepared. We will therefore not be performing a group audit.

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 Where risk of material misstatement to the Group is not material. 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 purposes. Management should therefore satisfy themselves that all UK and overseas company law requirements are adhered to on a component-by-component basis.

IT Audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the IT environment related to all key business processes, identify all risks from the use of IT related to those walkthrough key controls judged relevant to our audit and assess the relevant IT general controls (ITGCs) in place to mitigate them.

Our audit will include completing an assessment of the design and implementation of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure.

We will look at the general IT controls, in addition to the controls around the previous and new finance systems.

Financial statements - significant and other risks of material misstatement

Significant risks are defined as risks that require special audit consideration and include risks of material misstatement that are close to the upper range 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 auditing standards.

The table below summarises each significant risk. Detail behind each risk and the work undertaken is set out on the following pages.

Significant risk	Financial Statement/Assertion Level Risk	Fraud Risk	Approach to controls	Inherent risk of material misstatement
Management override of controls	Financial Statement Level	Yes	Assess design and implementation	Very high
Implementation of new accounting system	Financial Statement Level	No	Assess design and implementation	High
Fraud in revenue recognition	Assertion Level	Yes	Assess design and implementation	High
Fraud in non-pay expenditure recognition	Assertion Level	Yes	Assess design and implementation	High
Valuation of land and buildings	Assertion Level	No	Assess design and implementation	High
Pension net asset/liability	Assertion Level	No	Assess design and implementation	High

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	Planned audit procedures
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. 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. Specific areas of potential risk include manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business. Risk of material misstatement: Very High	Procedures performed to mitigate risks of material misstatement in this area will include: • Documenting our understanding of the journals posting process and evaluating the design and implementation effectiveness of management controls over journals; • Analysing the journals listing and determining the criteria for selecting high risk and/or unusual journals; • 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; • 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; and • Evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Implementation of new accounting system	Planned audit procedures
From 7 April 2026, the College began using a new general ledger system, BluQube. When implementing a significant new accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer made from the previous ledger system into the new one. We have therefore identified this area as a significant risk with potential impact on all financial statement areas. Risk of material misstatement: High	Procedures performed to mitigate risks of material misstatement in this area will include: • Obtaining an understanding of the how the project for implementation of the new system was managed; • Obtaining assurance on completeness and accuracy of the migration of financial data from the previous system to the new system, including transfer of trial balance and transaction data at 7 April 2026; • Assessing the impact of the new system implementation on the College's General Information Technology Controls and control environment as they relate to the preparation of the financial statements; and • Obtaining an understanding of any changes to the College's material business processes as a result of the system implementation, which will include documentation of processes and controls in place and walkthrough testing to confirm their design and implementation.

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

Fraud in revenue recognition	Audit approach
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). 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. 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. 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. Inherent risk of material misstatement: Revenue (occurrence): Very High	Procedures performed to mitigate risks of material misstatement in this area will include: • 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; • Evaluating the design and implementation effectiveness of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems; • Obtaining evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year; and • Substantively testing material income streams using analytical procedures and sample testing of transactions recognised for the year.

Fraud in non-pay expenditure recognition	Audit approach
We have also considered Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure could exceed the risk of the manipulation of revenue. We have therefore also considered the risk of fraud in expenditure at the College. Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of non-pay expenditure around the year end leading to a material misstatement in the reported financial position. 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 Inherent risk of material misstatement: Non-pay expenditure (completeness): Very High Accruals (existence and completeness): Very High	Procedures performed to mitigate risks of material misstatement in this area will include: • 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; • Evaluating the design and implementation effectiveness of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems; • Obtaining evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year; • Substantively testing material expenditure streams using analytical procedures and sample testing of transactions recognised for the year; • Reviewing accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates. • Verifying that expenditure and accruals included within the financial statements are complete by substantively testing post year-end invoices received and cash payments made.

Valuation of land and buildings (key accounting estimate)	Planned audit procedures
The College held land and buildings with a net book value of £119.5 million at 31 July 2025, with full external valuations last undertaken as at 31 July 2023 and external desktop valuations undertaken as at 31 July 2024 and 31 July 2025. 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. 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. 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 falls outside our expectations. Inherent risk of material misstatement: Land and Buildings (valuation): High	Procedures performed to mitigate risks of material misstatement in this area will include: • Evaluating management processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • Evaluating the competence, capabilities and objectivity of the valuation expert; • Evaluating the design and implementation effectiveness of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems; • Considering the basis on which the valuations are carried out and challenging the key assumptions applied; • Evaluating the reasonableness of the valuation movements for assets revalued during the year, with reference to market data; • For unusual or unexpected valuation movements, testing the information used by the valuer to ensure it is complete and consistent with our understanding; and • 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.

Pension net asset/liability – (key accounting estimate)	Planned audit procedures
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 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. This represents a key accounting estimate made by management 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. Inherent risk of material misstatement: Pension net asset or liability (Valuation): High	Procedures performed to mitigate risks of material misstatement in this area will include: • 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; • Evaluating the competence, capabilities and objectivity of the actuary; • Reviewing the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate; • Evaluating whether any asset ceiling was appropriately considered when determining the value of any pension asset included in the financial statements; and • Ensuring pension valuation movements for the year and related disclosures have been presented correctly.

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.

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 audit approach to the wider scope audit areas

Appointed auditors are required to consider the wider scope areas when:

- identifying significant audit risks at the planning stage of the audit
- reaching conclusions on those risks
- making recommendations for improvement
- where appropriate, setting out conclusions on the audited body's performance.

When reporting on such arrangements, the Code of Audit Practice requires us to structure our commentary under the four areas identified above. [Appendix 2](#) provides further detail on the definition, scope and audit considerations under each wider scope area.

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.

Wider scope significant risks

Financial sustainability

The College continues to face significant financial challenges, operating within tight financial parameters, and activity 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 2025. The College estimated an adjusted operating deficit totalling £4.3 million for the period between 2025-28. It includes an expectation of no other sources of income and a revision to current SFC funding model, which has changed the parameters on and the values associated with credits and the College estimate will have an impact of a reduction of income of around £0.7 million a year from 2026/27 to 2028/29.

The greatest risks to the College's sustainability are those around levels of funding from SFC. The SFC published final colleges funding allocations in July 2025. The 2025/26 SFC main grant allocation for the College is £37.9 million and this supports delivery of 111,480 of student credits, which is the same as the prior year. This represents an increase of £0.4 million of funding, which equates to 1.04%. This increased funding was not provided to meet general inflationary costs but to support increasing teaching pay and pension cost.

The College recognises that it has a structural deficit with significant efficiencies requiring to be realised in 2025/26 and in every subsequent year thereafter.

Staff costs continues 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.

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.

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.

Financial management

We have not identified a significant risk in relation to the College's arrangements for financial management from our initial planning and risk assessment work.

Our audit response:

As part of our work on Financial Management in 2025/26 we will review, conclude and report on:

- Whether the College achieves its 2025/26 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

We have not identified a significant risk in relation to the College's arrangements for vision, leadership and governance from our initial planning and risk assessment work.

Our audit response:

As part of our work on Vision, Leadership and Governance in 2025/26 we will review, conclude and report on:

- Whether the 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 the new Board and Committee members have been provided with appropriate training to perform their functions effectively.
-

Use of resources to improve outcomes

We have not identified a significant risk in relation to the College's arrangements for use of resources to improve outcomes from our initial planning and risk assessment work.

Our audit response:

As part of our work on use of resources to improve outcomes in 2025/26 we will review, conclude and report on:

- 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.
-

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code of Audit Practice and may not be all that exist.

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.

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

Audit Scotland has requested that, at least once during the term of our audit appointment, we carry out audit work on the College's arrangements relating to the Best Value theme of fairness and equality. We will consider this in the context of our wider scope audit work in 2025/26 and include commentary in our Annual Audit Report.

Audit team, logistics and requirements

Your core audit team

Engagement Lead

Andy Reid

Andy.Reid@azets.co.uk

Andy is the key contact for senior management and has overall responsibility for the audit quality and the audit opinion.

Engagement Manager

Caitlin Mackenzie

Caitlin.Mackenzie@azets.co.uk

Caitlin is responsible for the overall management of the audit and quality assurance of audit work. She is the key contract for the finance team management.

Engagement In-Charge Auditor

Tom Oliver

Tom.Oliver@azets.co.uk

Tom leads on the off-site audit visits. He is the key day-to-day contact for the finance team.

Audit Timetable

The following timetable indicates the key milestones of the audit.

Event	Date
Planning and risk assessment	April 2026
Reporting of plan to Audit and Risk Committee	2 June 2026
Interim audit	6 July 2026
Receipt of draft accounts and commencement audit fieldwork	5 October 2026
Audit and Risk Committee to consider accounts and audit report	17 November 2026
Board meeting to approve accounts for signing	10 December 2026
Target date for submission of signed accounts to Scottish Funding Council	31 December 2026

Our expectations and 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 to be produced to a good quality by the deadlines agreed with us. These should be complete including all notes, the Annual Report 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; and
- 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.

Independence, objectivity and other services provided

The Ethical Standards and ISA (UK) 260 require us to give you full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical requirements and further to our audit plan issued confirming audit arrangements we confirm that there are no further facts or matters that impact on our integrity, objectivity and independence as auditors that we are required or wish to draw to your attention. We consider an objective, reasonable and informed third party would take the same view.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

In particular:

- Non-audit 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. Azets provide advisory services to the College on VAT matters and corporation tax return matters as set out below. We obtained clearance from our Engagement Lead, Ethics Team and Audit Scotland prior to commencing the engagement.
- Contingent fees: No contingent fee arrangements are in place for any services provided
- Gifts and hospitality: We have not identified any gifts or hospitality provided to, or received from, any member of the College's, senior management or staff.
- Relationships: We have no other relationships with the College, its directors, senior managers and affiliates, and we are not aware of any former partners or staff being employed, or holding discussions in anticipation of employment, as a director, or in a senior management role covering financial, accounting or control related areas.

Non-audit service fees

Non-audit service	2025/26 Fee £	Threats identified	Safeguards
VAT advisory services	4,100	Self-review Management decisions	VAT advisory services are provided by a separate team from the audit team. No management decisions are taken as part of our VAT advisory work. The VAT fee is not set on a contingency basis and is insignificant in relation to the audit fee.

Non-audit service	2025/26 Fee £	Threats identified	Safeguards
Corporation tax return	1,450	Self-review Management decisions	Corporation tax return services are provided by a separate team from the audit team. No management decisions are taken as part of our corporation tax return work. The corporation tax return fee is not set on a contingency basis and is insignificant in relation to the audit fee.

Audit Fees

The quality of audit work is an essential requirement in successfully delivering a fully compliant ISA and Code of Audit Practice 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 2025/26 audits) have been developed in the context of a challenging economic financial environment and the challenges facing public services.

The 2025/26 expected audit fee is based on applying a 4.3% increase to the 2024/25 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.

For 2025/26, we propose setting the audit fee above the expected fee level. We propose setting the 2025/26 audit fee above the expected fee to reflect the following areas of work:

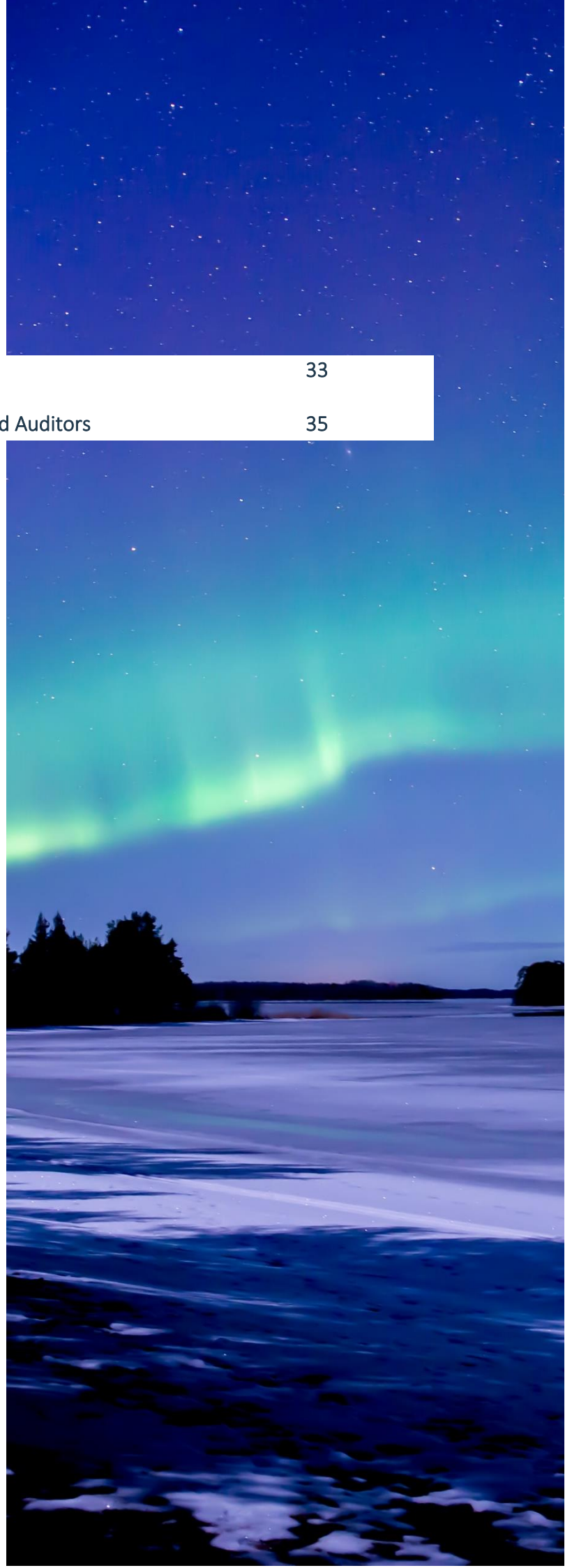
	Fee
Additional audit procedures – implementation of new accounting system	3,500

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.

Fee element	2025/26	2024/25
Auditor remuneration (expected fee level)	58,550	56,400
Auditor remuneration (above expected fee level for risk areas noted above)	3,500	3,840
Pooled costs	(7,090)	(7,120)
Sectoral cap adjustment	5,980	5,790
Total fee	60,940	58,910

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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 professional judgements about the size of misstatements which we consider to be material, based on our knowledge of the College, considering factors such as financial stability, expectations of readers and stakeholders, sector developments and financial reporting requirements. In determining materiality we consider the level of misstatement that could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Our assessment, at the planning stage, of materiality for the year ended 31 March 2026 was calculated as follows.

	College £
Overall materiality for the financial statements	1,100,000
Performance materiality (75% of materiality)	825,000
Trivial threshold	55,000
Materiality	Our initial assessment is based on approximately 2% of the College's gross revenue expenditure, adjusted for exceptional expenditure, as disclosed in the 2024/25 audited annual accounts. We consider this to be the principal consideration for the users of the financial statements when assessing financial performance of the College. The financial statements are considered to be materially misstated where total errors exceed this value.
Performance materiality	75% of materiality 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, 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. 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 exceed overall materiality.
Trivial threshold	5% of overall materiality Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. Individual errors above this threshold are communicated to those charged with governance.

In addition to the above, we consider any areas for specific lower materiality. We have determined that no specific materiality levels need to be set for this audit.

We also consider materiality qualitatively. This includes areas where users are more sensitive to any error. As such we consider the Remuneration and Staff Report and Related Parties disclosures as material by nature.

In performing our audit, we will consider any errors which result in a movement between the relevant bandings on the disclosure table to be material.

For Related Party transactions, 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.

Appendix 2: Responsibilities of the College and Auditors

College responsibilities

The Code of Audit Practice (2021) sets out the following responsibilities:

Area	College responsibilities
Corporate governance	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.
Financial statements and related reports	The College has responsibility for: • 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; • 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; • 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 • 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. Management commentaries should be fair, balanced and understandable. 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. 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

Area	College responsibilities
	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.
Standards of conduct for prevention and detection of fraud and error	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.
Financial position	The College is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to: • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
Best value	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.

Auditor responsibilities

Code of Audit Practice

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

The Code outlines the responsibilities of external auditors 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.

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.

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.

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.

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.

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](#).

The most recent audit quality report can be found at [Quality of public audit in Scotland: Annual report 2024/25 | Audit Scotland](#)



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Moving forward with confidence

