



Scott-Moncrieff
business advisers and accountants

Glasgow Kelvin College

External Audit Plan
2016/17

June 2017

Contents

- Introduction..... 1**
- Responsibilities of Scott-Moncrieff 3**
- Audit strategy 5**
- Annual accounts..... 7**
- Wider scope audit..... 11**
- Audit outputs, timetable and fees 15**
- Appendix 1: Your audit team 18**
- Appendix 2: Statement of understanding..... 19**

1

Introduction

Introduction

1. This document summarises the work plan for our 2016/17 external audit of the Glasgow Kelvin College ("the College").
2. The core elements of our work include:
 - an audit of the 2016/17 financial statements and related matters;
 - relevant elements of wider scope audit as defined within the Code of Audit Practice (the Code); and
 - any other work requested by Audit Scotland.

Audit appointment

3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of Scottish Parliament. The Auditor General is independent and not subject to any control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of most public bodies in Scotland outside the local government sector, including further education bodies in Scotland, and reporting on their financial health and performance.
4. Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out her statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Auditor General has appointed Scott-Moncrieff as external auditor of the College for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2016/17 and summarises:
 - the responsibilities of Scott-Moncrieff as the external auditor;
 - our audit strategy;
 - our planned audit work and how we will approach it;
 - our proposed audit outputs and timetable; and
 - background to Scott-Moncrieff and the audit team.

Adding value through the audit

6. All of our clients quite rightly 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.
7. We welcome any comments you may have on the quality of our work and this report via: <https://www.surveymonkey.co.uk/r/S2SPZBX>
8. While this plan is addressed to the College, it will be published on Audit Scotland's website www.audit-scotland.gov.uk.

2

Responsibilities of Scott-Moncrieff

Responsibilities of Scott-Moncrieff

Code of Audit Practice

9. The Code of Audit Practice (the Code) 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

10. 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 annual accounts, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
11. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.

Exhibit 1: Audit dimensions of wider scope public audit

Audit area	Scope
Financial sustainability	Financial sustainability looks forward to the medium (two to five years) and the longer term (over five years) to consider whether the body is planning effectively to allow it to continue to fulfil its functions in an affordable and sustainable manner.
Financial management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
Governance and transparency	Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.
Value for money	Value for money is concerned with using resources effectively and continually improving services.

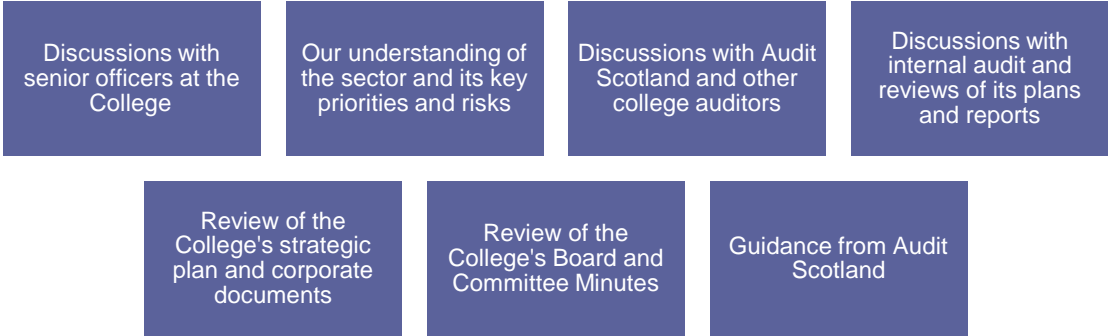
3

Audit strategy

Audit strategy

Risk-based audit approach

- 12. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures our audit focuses on the areas of highest risk.
- 13. Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise. Our audit planning is based on:



Communications with those charged with governance

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

Professional standards and guidance

- 15. We perform our audit of the annual accounts in accordance with International Standards on Auditing (UK) (ISAs), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

Partnership working

- 16. We will 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

- 17. 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, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will 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.

Internal audit

- 18. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the College's total audit resource. The College's internal audit function is provided by Henderson Loggie. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to the College is used efficiently and effectively.



Annual accounts

Annual accounts

Introduction

19. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the College's annual accounts.

Approach to audit of annual accounts

20. Our opinion on the annual accounts will be based on:

Risk-based audit planning

21. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the annual accounts will be based.

An audit of key systems and internal controls

22. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the annual accounts.

23. The nature of the work we perform will be based on the initial risk assessment. We will examine the systems in place for compliance with best practice and the College's own policies and procedures.

24. We update our risk assessment following our evaluation of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

A final audit of the annual accounts

25. During our final audit we will test and review the material amounts and disclosures in the annual accounts. The extent of testing will be based on our risk assessment.

26. Our final audit will seek to provide reasonable assurance that the annual accounts are free from material misstatement and comply with:

- the Statement Of Recommended Practice: accounting for further and higher education (the SORP);
- the Government Financial Reporting Manual (FRoM) where applicable; and
- the Accounts Direction.

27. In order to provide assurance on the regularity of transactions, we also review whether in all material respects, expenditure has been incurred and income applied in accordance with guidance issued by Scottish Ministers.

Independent auditor's report

28. Our opinion on the truth and fairness of the annual accounts will be set out in our independent auditor's report which will be included within the annual accounts.

Materiality

29. Materiality is an expression of the relative significance of a matter in the context of the annual accounts as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

30. Our initial assessment of materiality for the annual accounts is £600,000, being 1.9% of 2015/16 expenditure. We will review our assessment of materiality throughout our audit.

31. We set a performance materiality for each area of work which is based on a risk assessment. We will perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

Area risk assessment	Weighting	Performance materiality
High	40%	£240,000
Medium	55%	£330,000
Low	70%	£420,000

- Uncorrected misstatements with a value in excess of £25,000); and
- Other misstatements below the £25,000 threshold that we believe warrant reporting on qualitative grounds.

Key audit risks in the annual accounts

32. We will report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;

33. Auditing standards require that we inform the Audit Committee of our assessment of the risk of material misstatement in the annual accounts. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will update the Audit Committee if our assessment changes significantly during the audit.

Exhibit 2 – Key audit risks in the annual accounts

1. Management override of control

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.



34. In response to this risk we will review the College's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly.

2. Revenue Recognition

Under ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. Practice Note 10 (revised) highlights that in the public sector most entities are net spending bodies and there is a risk of fraud over expenditure.

The presumption is that the College could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.



35. As part of our planning process we have considered the nature of the revenue streams at the College against the risk factors set out in ISA 240. We have identified that for Scottish Funding Council (SFC) grant funding the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate revenue of this nature. We have concluded, however, the risk of fraud in relation to revenue recognition is present in all other income streams.

36. We have considered the risk of fraudulent recognition of expenditure in line with Practice Note 10 and at this stage of the audit we do not believe the recognition of expenditure represents a material risk to the financial statements as we consider there is little incentive to manipulate expenditure. We will, of course, continue to monitor this position throughout the audit.

37. We will review the controls in place over revenue accounting. We will consider the College's key revenue transactions and streams and carry out testing to confirm that the College's revenue recognition policy is appropriate and has been applied consistently.

Exhibit 2 – Key audit risks in the annual accounts

3. Estates developments

The sale of the City Campus to Glasgow School of Art reached formal completion before the 2015/16 year end. While the disposal was recognised in 2015/16, the College did not receive the £6million sale proceeds until 1 August 2016 and so a £6million debtor was recognised in the 2015/16 financial statements. We reviewed the College's 2015/16 accounting treatment against the requirements of FRS102 and the SORP and found that the College accounted for this disposal appropriately.

Under the terms of the Financial Memorandum with the SFC prior approval is required for any sale, and subsequent reinvestment of proceeds, where the proceeds are expected to exceed £3million. Based on SFC confirmations the College accounted for sale proceeds of £3million on the transaction in 2015/16 with a further £3million accounted for as a liability due to be repaid to the SFC.

We understand that further consultation during 2016/17 has enabled the College to retain a further £1million of the sales proceeds to support its ambitions to raise attainment, provide STEM skills for sustainable employment and develop community capacity. We also understand that the remaining £2million has been paid, in line with relevant approvals, directly to Forth Valley College.

From our planning to date we have not identified any specific concerns with the treatment adopted by the College. However, due to the material value, and the importance of compliance with the Financial Memorandum, we consider it appropriate to treat this as a significant risk to our audit in 2016/17.



- 38.** We will review the College's treatment of the capital receipt during 2016/17. We will ensure that the College has accounted for the related transactions in accordance with FRS102 and the SORP. In addition, we will consider whether the College has complied with the requirements of the Financial Memorandum and any/all other relevant correspondence from the SFC and the Scottish Ministers.

5

Wider scope audit

Wider scope audit

Introduction

- 39. The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions: financial sustainability; financial management; governance and transparency; and value for money:
- 40. At this stage of our audit planning process, we have not identified any significant risks in relation to the wider scope audit dimensions. Audit planning is a continuous process and we will report any significant risks that emerge through our audit in our annual audit report.

Exhibit 3 - Wider scope audit

Financial sustainability: Financial sustainability looks forward to the medium and longer term to consider whether the College is planning effectively to continue to fulfill its functions in an affordable and sustainable manner.

College responsibilities	Our audit approach
<p>It is the College’s responsibility to put in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with any statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • How the College’s plan to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position. 	<p>During our 2016/17 audit we will consider the College’s financial standing. This will involve a review of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting.</p> <p>It is important that such arrangements are adequate in order to properly control the College’s operations and use of resources.</p>

Exhibit 3 - Wider scope audit

Financial management: Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

College responsibilities	Our audit approach
<p>It is the College's responsibility to ensure that its financial affairs are conducted in a proper manner. Management is responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <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 their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>It is the College's responsibility to establish 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>	<p>During our 2016/17 audit we will consider:</p> <ul style="list-style-type: none"> • Whether the College has arrangements in place to ensure systems of internal control are operating effectively; • Whether the College can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance; • How the College has assured itself that its financial capacity and skills are appropriate; and • Whether the College has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency: Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

College responsibilities	Our audit approach
<p>It is the responsibility of the College 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. The College should involve those charged with governance in monitoring these arrangements.</p> <p>The College is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>	<p>We will review the effectiveness of the College's governance framework and the extent to which board and committee roles, membership and terms of reference comply with current guidance.</p> <p>We will consider the appropriateness of the disclosures in the Governance Statement.</p> <p>We will consider whether the information provided to the board and committees is sufficient for members to assess the impact of decisions on resources and performance.</p> <p>Our work will include consideration of how risk management has been addressed within the College. We will also consider the College's internal audit arrangements to determine their role in examining the control systems established by management.</p>

Exhibit 3 - Wider scope audit

Value for money: Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.

College responsibilities	Our audit approach
<p>Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>	<p>We will work with the College to identify and review evidence which demonstrates the achievement of value for money in the use of its resources.</p> <p>We will seek evidence from the College that outcomes are improving and there is sufficient focus on improvement and the pace of it.</p> <p>Audit Scotland carries out a national performance audit programme on behalf of the Auditor General for Scotland and the Accounts Commission. We will work with Audit Scotland during the year to understand the outputs from this work and identify any particular reports that the College may have a direct interest in.</p>

6

Audit outputs, timetable and fees

Audit outputs, timetable and fees

Audit output	Format	Description	Target month
External audit plan	Report	This report sets out the scope of our audit for 2016/17.	June 2017
Independent Auditor's Report	Report	This report will contain our opinions on the truth and fairness of the annual accounts and on the regularity of transactions.	November 2017
Annual Report to the Audit Committee and the Auditor General for Scotland	Report	At the conclusion of each year's audit we will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinions, conclusions and the significant issues arising from the work. This report will pull together all of our work under the Code of Audit Practice.	November 2017

Audit outputs

41. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
42. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

Audit fee

43. Audit Scotland has completed a review of funding and fee setting arrangements and as a result revised its fee strategy. It now sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit.
44. The expected fee will be reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.

45. As auditors we negotiate a fee with the audited body 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 2016/17 the expected fee for the College is £43,380. The total proposed fee for the College for 2016/17 is as follows:

Composition of the audit fee	
Auditor remuneration	£38,760
Pooled costs	£2,420
Audit support costs	£2,200
Total expected fee	£43,380

46. We will take account of the risk exposure of the College and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

Audit timetable

47. The dates for our interim and final audits have been discussed with the Audit Committee. A summary timetable, including audit outputs, is set out below:



7

Appendices

Appendix 1: Your audit team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 18 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

Gary has a reputation for providing practical, value-added advice that is tailored to the needs of his clients. They also appreciate his professionalism, dedication and willingness to devote time and energy to ensure the firm's high standards are upheld.

Edinburgh	Glasgow	Inverness
Exchange Place 3 Semple Street Edinburgh EH3 8BL	25 Bothwell Street Glasgow G2 6NL	10 Ardross Street Inverness IV3 5NS
(0131) 473 3500	(0141) 567 4500	(01463) 701 940

Michael Lavender CPFA – Audit Manager

Michael has nearly a decade of public sector experience, delivering external audit services to a range of public sector bodies, including further education, local government, NHS and central government.



Michael works across our education, central government and NHS clients, bringing strong client management interpersonal skills. He is a recognised technical accounting expert and sits on the firm's technical committee

Michael will manage the onsite audit team and work alongside Gary to deliver the audit engagement

We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, further education bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

Your audit team

The external audit team at Glasgow Kelvin College will be led by Gary Devlin and managed by Michael Lavender. We will draw upon the expertise of our wider public sector management team during the course of our audit appointment.

Gary Devlin - Partner

Gary is responsible for Scott-Moncrieff's work in the public sector and further and higher education sectors. He has over 20 years' experience in providing audit, assurance and advisory services to a wide range of clients and is an expert on governance and risk reviews in the public, charity and education sectors. Gary experience spans internal audit, external audit and risk management services and he is the partner in charge of a range of our HE and FE internal and external audit appointments. Gary is the appointed auditor to Glasgow Kelvin College, Glasgow Clyde College, the City of Glasgow College and the Glasgow Colleges' Regional Board.



Confirmation of independence

Auditing standards require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we will comply with the FRC Ethical Standard – Integrity, Objectivity and Independence. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the College and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Statement of understanding

Introduction

The purpose of this Statement of understanding is to clarify the terms of our appointment and the key responsibilities of the College and Scott-Moncrieff.

Annual accounts

We will require the annual accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant the College staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statements strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the College's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the College during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the Audit Committee.

Internal audit

It is the responsibility of the College to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

Fraud and irregularity

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. 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.

Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Karen Jones. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work. Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

Agreement of terms

We shall be grateful if the Audit Committee would consider and note this Statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



Scott-Moncrieff
business advisers and accountants