

# Edinburgh College

Annual Audit Plan 2017/18



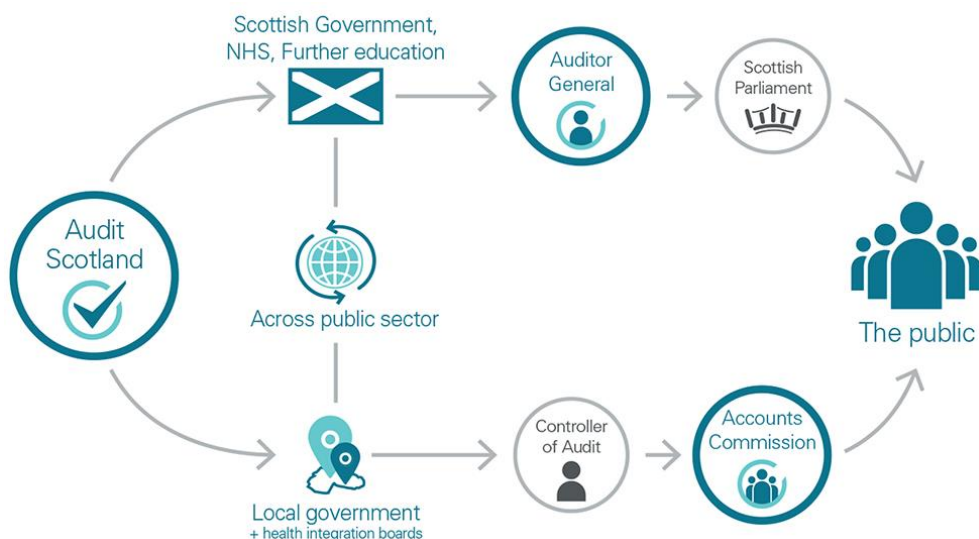
 AUDIT SCOTLAND

Prepared for Edinburgh College  
May 2018

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.
3. The Auditor General for Scotland has made reports for the last three years under section 22 of the Public Finance and Accountability (Scotland) Act 2000 to draw the Scottish Parliament's attention to the College's financial position. The April 2018 report, which relates to the 2016/17 financial statements, highlighted the improvements in the financial position of the College but noted that there are still challenges ahead if the College is to breakeven by 2018/19. Our 2017/18 audit plan reflects the work we plan to carry out in response to this report.

## Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Edinburgh College. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<b>1 Risk of management override of controls</b>  ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.	Owing to the nature of this risk, assurances from management are not applicable.	Detailed testing of journal entries.  Review of accounting estimates.  Focused testing of accruals and prepayments.  Focused testing of accounting adjustments at the year-end.  Evaluation of significant transactions that are outside the normal course of business.

Audit Risk	Source of assurance	Planned audit work
<p><b>2 Risk of fraud over income</b></p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams are significant.</p> <p>Edinburgh College recorded income of £68 million in 2016/17, of which £52 million was provided by the Scottish Funding Council (SFC) and £16 million was received from other sources.</p> <p>SFC funding is reliant on accurate recording of student numbers and courses provided.</p> <p>The extent and complexity of income means that there is an inherent risk of fraud which we are unable to rebut.</p>	<p>Effective counter-fraud and whistleblowing policies in place.</p> <p>Financial regulations and procedures provide key controls over systems and processes.</p> <p>Ongoing monitoring by the SFC.</p> <p>Adequate segregation of duties, sound budget monitoring arrangements and accountability.</p> <p>Internal audit are reviewing income and debtors systems.</p>	<p>SFC grant income reconciled to the funding allocation.</p> <p>Consider findings raised by internal audit on their review of student activity and any potential impact on our audit approach.</p> <p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Consider findings raised by internal audit on their review of income and debtors systems and any potential impact on our audit approach.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>Practice Note 10 requires auditors to focus their consideration of the risk of fraud and error on expenditure as most public sector bodies are net expenditure bodies. Edinburgh College recorded an excess of expenditure over income of £2.5 million in 2016/17 with gross expenditure totalling £70 million.</p> <p>The extent and complexity of expenditure means that there is an inherent risk of fraud.</p>	<p>Effective budget monitoring processes in place.</p> <p>Effective counter-fraud and whistleblowing policies in place.</p> <p>Financial regulations and procedures provide key controls over systems and processes.</p> <p>Ongoing monitoring by the SFC.</p> <p>Adequate segregation of duties, sound budget monitoring arrangements and accountability.</p> <p>Internal audit are reviewing purchasing and creditors systems.</p>	<p>Detailed testing of significant expenditure transactions at the year-end including cut off testing.</p> <p>Analytical procedures on expenditure.</p> <p>Review of accruals and provisions.</p> <p>Consider findings raised by internal audit on their review of purchasing and creditors systems and any potential impact on our audit approach.</p>
<p><b>4 Financial position/ going concern</b></p> <p>The College reported a deficit of £2.5 million in 2016/17 and is forecasting a deficit of £0.5 million for 2017/18. In addition, the financial statements recorded a net current liabilities position.</p> <p>The College continues to face a range of financial pressures including the need to meet the costs arising from national pay awards and increased employer pension contributions.</p>	<p>Regular and timely production of accurate management accounts reviewed by budget holders and senior management.</p> <p>Budgetary control information demonstrates that the College is on target to achieve the planned outturn.</p> <p>Savings have been achieved through the voluntary severance scheme and in various non-pay areas.</p>	<p>Monitor progress on the financial position: achievement of budget and student activity targets.</p> <p>Monitor completion of the BTP.</p> <p>Consider findings raised by internal audit on their review of student activity and any potential impact on our audit approach.</p> <p>Cut-off testing to ensure expenditure and income has been accounted for in the correct financial year.</p>

Audit Risk	Source of assurance	Planned audit work
<p>The financial position at the end of 2017/18 is dependent on a range of outcomes which include:</p> <ul style="list-style-type: none"> <li>reducing expenditure and meeting savings targets (from voluntary severance schemes and other sources)</li> <li>achieving student activity targets</li> <li>managing cash balances effectively</li> <li>achievement of Business Transformation Plan (BTP) targets.</li> </ul> <p>There is a risk that the anticipated financial outcome is not achieved</p>		
<p><b>5 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the following material account areas: non-current assets (2016/17 - £146 million), the net pension liability under FRS 102 (2016/17 - £22 million) and provisions (2016/17 - £5 million).</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Sound arrangements for providing valuation information have been established.</p> <p>Valuers are recognised, established providers in their field.</p>	<p>Review of the work of an expert for the professional valuer.</p> <p>Review of accounting policies to ensure they are appropriate and properly applied.</p> <p>Focused substantive testing of year-end balances.</p> <p>Assess the reliability, professional competence capability and objectivity of the actuary as experts on whom reliance is placed.</p> <p>Review of PwC report assessing actuarial processes.</p>
<b>Wider dimension risks</b>		
<p><b>6 Financial management</b></p> <p>Effective financial management requires sufficient financial capacity, sound budgetary processes and a sound control environment with internal controls operating effectively.</p> <p>Given the range of financial challenges facing the College, there is a risk that current arrangements are compromised and are no longer effective.</p>	<p>Regular and timely production of accurate management accounts reviewed by budget holders and senior management.</p> <p>Mechanisms for reliable budget and frequent forecasts.</p> <p>Ongoing management of fiscal resource position and careful cash management.</p> <p>Improved management of staff establishment.</p> <p>SFC monitoring.</p> <p>Risk Register overseen by Audit and Risk Assurance Committee.</p>	<p>Review committee minutes and reports monitoring the financial position through the year, specifically any revisions to the budget.</p> <p>Carry out detailed 'cut off' testing to confirm expenditure and income has been accounted for in the correct financial year.</p>

Audit Risk	Source of assurance	Planned audit work
<p><b>7 Financial sustainability</b></p> <p>The College continues to be dependent on SFC support in order to meet its liabilities.</p> <p>Financial sustainability will require achievement of:</p> <ul style="list-style-type: none"> <li>• the agreed target rate of student activity</li> <li>• effective management and delivery of the curriculum</li> <li>• voluntary severance scheme targets</li> <li>• BTP targets</li> <li>• effective cash management.</li> </ul> <p>There is a risk that the College fails to achieve financial sustainability in the short to medium term and that the funding gap is not effectively managed.</p>	<p>Regular monitoring meetings with SFC.</p> <p>Risk Register overseen by Audit and Risk Assurance Committee.</p> <p>Board and Policy and Resources Committee oversight of BTP and finance reports.</p>	<p>Monitor progress on the closure of the BTP.</p> <p>Monitor progress on achievement of financial targets.</p> <p>Monitor student recruitment and retention activity.</p> <p>Monitor progress of longer term financial planning.</p>
<p><b>8 Governance and transparency</b></p> <p>There have been a number of major changes at the College since its formation in 2012, including a complete management restructuring and an ongoing programme of voluntary severance.</p> <p>The College Principal has announced that she intends to retire from September 2018.</p> <p>A new Chair of the Board was appointed in March 2018, replacing the current chair who had held the position since incorporation in 2012.</p> <p>With all this change ongoing, there is a risk that:</p> <ul style="list-style-type: none"> <li>• the achievement of the BTP is impacted</li> <li>• leadership capacity and momentum is affected</li> <li>• there could be an impact on staff morale and turnover</li> <li>• there could be a loss of key staff and knowledge</li> <li>• the College fails to deliver the courses offered in its curriculum.</li> </ul>	<p>Progress is being made on the BTP.</p> <p>The Policy and Resources Committee provides governance of the BTP on behalf of the College's Board of Management, and considers progress reports at every committee meeting.</p> <p>The Audit and Risk Assurance Committee regularly reviews its effectiveness.</p> <p>The senior management team is now well established and lines of accountability are clear.</p>	<p>Review Audit and Risk Assurance Committee self-appraisal and annual review outcomes</p> <p>Review processes for ensuring Register of Interests is up to date.</p> <p>Review compliance with the SFC guidance on good practice in college governance.</p> <p>Monitor progress on the BTP including workforce planning.</p> <p>Ongoing review of College Board and Committee papers.</p> <p>Monitor the effectiveness of governance arrangements through attendance at the Audit and Risk Assurance Committee.</p>

## Reporting arrangements

5. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

7. We will provide an independent auditor's report to the Board of Management of Edinburgh College, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the College Principal and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

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## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Audit & Risk Assurance Committee Date
Annual Audit Plan	23 May 2018	30 May 2018
Management Report	30 June 2018	October 2018 (tbc)
Annual Audit Report	14 November 2018	21 November 2018 (tbc)
Independent Auditor's Report	As soon as possible following the Board meeting	N/A

## Audit fee

8. The agreed audit fee for the 2017/18 audit of Edinburgh College is £29,500 (2016/17: £29,220). In determining the audit fee we have taken account of the risk exposure of Edinburgh College, the planned management assurances in place and the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 24 September 2018.

9. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Responsibilities

### Audit and Risk Assurance Committee and Board of Management

10. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.



**11.** The audit of the financial statements does not relieve management or the Audit and Risk Assurance Committee, as those charged with governance, of their responsibilities.

**Appointed auditor**

**12.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

**13.** Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**14.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Edinburgh College and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Edinburgh College will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**15.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of Edinburgh College and its expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income.

## Materiality

**16.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

**17.** We calculate materiality at different levels as described below. The calculated materiality values for Edinburgh College are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 July 2018 based on projected outturn at 31 January 2018.	£656,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 40% of planning materiality.	£262,000
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 3% of planning materiality.	£20,000



18. We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration report. Any issues identified will be reported to the Audit and Risk Assurance Committee.

### Timetable

19. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Assurance Committee dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	24 September 2018
Latest date for final clearance meeting with Chief Operating Officer	9 November 2018
Agreement of audited unsigned annual accounts	14 November 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	
Independent auditor's report signed	By 31 December 2018

## Internal audit

**20.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of Internal Audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Scott Moncrieff.

### Adequacy of Internal Audit

**21.** As Scott Moncrieff are the internal auditors for a number of clients with Audit Scotland, we have completed a central review of their compliance with the Public Sector Internal Audit Standards (PSIAS). Our review noted that Internal Audit were compliant with the PSIAS and Scott Moncrieff has appropriately qualified and trained staff to deliver the audit. There were no concerns with their audit approach or quality control.

### Areas of Internal Audit reliance

**22.** In respect of our wider dimension audit responsibilities we plan to consider the following areas of internal audit work:

- Business Continuity
- Workforce Management
- Estates Management
- General Data Protection Regulation

**23.** We shall also consider the findings identified from Internal Audit's work and their potential impact on our year end audit on the following areas:

- review of College compliance with SFC guidance on student activity
- debtors and income systems
- purchasing and creditors systems
- EMA, bursaries and student support payments.

## Audit dimensions

**24.** As noted at paragraph 2 above, we are required to meet the wider scope requirements of public sector audit which are outlined in the Code of Audit Practice.

**25.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

**26.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on Edinburgh College's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We shall review selected aspects over our five-year audit appointment and conclude on the following:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

### Financial management

**27.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on the following over our five-year appointment:

- whether Edinburgh College has arrangements in place to ensure systems of internal control are operating effectively
- whether Edinburgh College can demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- how Edinburgh College has assured itself that its financial capacity and skills are appropriate
- whether Edinburgh College has established appropriate and effective arrangements for the prevention and detection of fraud and corruption

### Governance and transparency

**28.** 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. We will review, conclude and report on the following over our five-year appointment:

- whether Edinburgh College can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

### Value for money

**29.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on the following over our five-year appointment:

- whether Edinburgh College can provide evidence that it is demonstrating value for money in the use of its resources
- whether Edinburgh College can demonstrate that there is a clear link between money spent, output and outcomes delivered
- whether Edinburgh College can demonstrate that outcomes are improving
- whether there is sufficient focus on improvement and the pace of it.

### Independence and objectivity

**30.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

**31.** The engagement lead for Edinburgh College is Helen Russell, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Edinburgh College.

### Quality control

**32.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

**33.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**34.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision.

We welcome feedback at any time and this may be directed to the engagement lead.

## **Adding Value**

**35.** Through our audit work we aim to add value to Edinburgh College. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the College has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

# Edinburgh College

## Annual Audit Plan 2017/18

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