Inverness College

Annual Audit Plan
Year ending 31 July 2018

Audit Committee – 29 May 2018

Building a better working world

Contents

About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Auditor General for Scotland has appointed us as external auditor of Inverness College (the College) for financial years 2016/17 to 2020/21.

This report is for the benefit of the College and is made available to the Auditor General for Scotland and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

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, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Executive Summary

Purpose of this report

The Auditor General for Scotland has appointed us as auditor of the College under the Public Finance and Accountability (Scotland) Act 2000 ("the Act"). The period of appointment is 2016-17 to 2020-21 inclusive.

This Annual Audit Plan, prepared for the benefit of Inverness College management and the Audit Committee, sets out our proposed audit approach for the audit of the financial year ending 31 July 2018, the second year of our appointment. In preparing this plan, we have updated our understanding of the College through planning discussions with management, review of relevant documentation and committee reports, and our general understanding of the environment in which the College is currently operating.

After consideration by the College, the plan is provided to Audit Scotland and published on their website.

Scope and responsibilities

We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; International Standards on Auditing (UK); relevant legislation; and other guidance issued by Audit Scotland. The Code sets out the responsibilities on audited bodies, more details of which are provided in Appendix A.

Financial statement audit

We are responsible for conducting an audit of the financial statements of the College. We will provide an opinion on the financial statements as to whether they:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the College 's affairs as at 31 July 2018 and of the College surplus or deficit for the year then ended.
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102: The Financial Reporting Standard applicable in the UK and Ireland.
- have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder issued by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

We also review and report on the consistency of the other information prepared and published by the College along with its financial statements.

Wider scope audit

The wider scope audit, as set out in the Code, plays a key role in the public sector audit framework in Scotland. In accordance with Audit Scotland planning guidance, for 2017/18 we have assessed it is appropriate to classify the College as a smaller body for the purposes of our wider scope audit consideration. This will focus our consideration of the College's arrangements as they relate specifically to the audit dimensions of financial sustainability and governance and transparency.

Notwithstanding our understanding of the general environment in which the College operates, no wider scope audit focus areas for 2017/18 have been identified during our audit planning.

Materiality

Planning materiality £400,000	Materiality has been set at £400,000 (*2016/17 - £400,000*), which represents approximately 1.5% of the gross expenditure for the year.
Tolerable Error £200,000	Tolerable error has been set at £200,000 (*2016/17 - £200,000*) , which represents 50% of materiality.
Summary of uncorrected differences £19,000	We will report all uncorrected misstatements relating to the primary financial statements greater than £20,000 (*2016/17 - £19,000*). Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report, providing an overview of our initial risk assessment and any change in risk profile in the year.

Financial statements audit

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk / Significant risk	No change	In accordance with ISA (UK) 240, we consider the presumed fraud risk in respect of improper income recognition. Due to the nature of SFC funding to the College, we have rebutted the risk of fraud around this specific income stream. We extend our work to consider the recognition of expenditure, in accordance with Practice Note 10, issued by the Financial Reporting Council, as applicable to public sector audit.
Management override	Fraud risk	No change	As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Valuation of property, plant and equipment and capital funding	Inherent Risk	No change	Given the value of the College's estate and the fact that a number of assumptions are made in the valuation, we assign a higher inherent risk to property, plant and equipment.
Capital financing arrangements	Inherent Risk	No change	We have identified an inherent risk in relation to the capital financing arrangements.
Pension liabilities	Inherent Risk	No change	We have identified an inherent risk in relation to the valuation of the pension liabilities. The College are an admitted body of the Highland Council Pension Scheme. The net pension liabilities on the balance sheet arising from participation in the scheme at 31 July 2017 were £10.4 million.

Independence

We confirm that we have undertaken client and engagement continuance procedures, included in which is our continuing assessment of our independence to act as your external auditor.

Key contacts

Stephen Reid Partner sreid2@uk.ey.com	Keith Macpherson Senior Manager kmacpherson@uk.ey.com	Olga Potapova, Assistant Manager opotapova@uk.ey.com

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1. Financial statements and accounting

1. Financial statements and accounting

The annual financial statements enables the College to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice and applicable law.

Audit opinion

We provide an opinion on the financial statements as to whether they give a true and fair view of the financial position of the College, and whether they have been properly prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended). We also review and report on the consistency of the other information prepared and published by the College along with its financial statements.

We undertake our financial statements audit work in accordance with the four phases of EY's Global Audit Methodology: Planning; Identification and assessment of risk; Design and execution of our response to those risks; and Conclude and communicate.

Audit approach

We determine which accounts, disclosures and relevant assertions could contain risks of material misstatement. Our audit involves:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the College to express an opinion on the financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, that the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements.
- Maintaining auditor independence.
- Substantive tests of detail of transactions and amounts. For 2017/18 we plan to use a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated. We will consider the design and implementation of key controls through the course of our understanding of financial processes.

Materiality

For the purposes of determining whether the financial statements are free from material error, in accordance with ISA (UK) 320 we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Gross expenditure on provision of services, excluding the 'gross-up' of income and expenditure for the College = £26,150,324.	
Planning materiality £400,000	Planning materiality (PM) – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. For planning purposes, materiality for 2017/18 has been set at £400,000 (2016/17 – £400,000). This represents approximately 1.5% of the College's reported expenditure in the prior year.
Tolerable Error £200,000	Tolerable error (TE) – materiality at an individual account balance, which is set so as to reduce to an acceptably low level that the aggregate of uncorrected and undetected misstatements exceeds PM. We have set it at £200,000 (2016/17 - £200,500) which represents 50% of planning materiality.
Summary of Audit Differences £20,000	Summary of Audit Differences (SAD) Nominal amount – the amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements. The Code requires that auditors report at no more than £0.25 million. We have set it at £20,000 (2016/17 - £19,000), which represents 5% of planning materiality.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

The amount we consider material at the end of the audit may differ from our initial determination. At the end of the audit we will form, and report to you, our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

We have set out the significant risks (including fraud risks) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Significant risk – risk of fraud in income and expenditure recognition

What is the risk?	Our identified response to the risk
Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Given the nature of Scottish Funding Council (SFC) funding to the College through The University of the Highlands and Islands (UHI), we rebut the presumed revenue recognition risk for this income stream. However we recognise a revenue recognition risk for tuition income and other material income in respect of possible manipulation of cut-off around the financial year end. We also recognise the same risk around incorrect recognition of non-pay expenditure in line with Practice Note 10.	Our response will include: Ø review and test all relevant income and expenditure policies against the relevant accounting standards and SORP Ø review, test and discuss with management any accounting estimates on income and expenditure recognition for evidence of bias Ø develop a testing strategy to test material income and expenditure streams Ø review and test income and expenditure cut-off around the year end.

Significant risk – risk of management override

What is the risk?	Our identified response to the risk
Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud. The risk of management override is pervasive to the audit and impacts the testing of all areas. Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk. This takes account of the fact that management are in a unique position to override controls which otherwise appear to be operating effectively.	Based on the requirements of auditing standards our approach will focus on: Ø identifying fraud risks during the planning stages Ø inquiry of management about risks of fraud and the controls put in place to address those risks Ø consideration of the effectiveness of management's controls designed to address the risk of fraud Ø determining an appropriate strategy to address those identified risks of fraud Ø focusing our audit procedures on manual journals that could be used by management to manipulate the true and fair position of the College's financial statements.

Ø Significant risks identified in the audit relate to the risk of fraud in income and expenditure recognition. We also perform general procedures in all audits to respond to the risk of misstatement due to fraud or error caused by management override of controls.

Ø We will report our findings in these areas to you within our 2017/18 Annual Audit Report.

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

Inherent Risk – Valuation of Property, Plant and Equipment	
What is the risk?	**Our identified response to the risk**
The College's property portfolio totals £52 million as at 31 July 2017. Land and buildings are revalued to fair value with a full revaluation taking place at least every five years. The College did not perform valuation in the prior year. Last formal valuation was undertaken on 1 August 2015 (in the process of conversion from old UK GAAP to FRS 102). That valuation has not identified any differences between the NBV of the buildings and its fair value. Management is planning to perform an updated valuation this year. Given the size of this balance and the fact that a number of assumptions are made in the valuation, we assign a higher inherent risk to property, plant and equipment. We do not, however, at the planning stage have any specific concerns over management's approach to property valuations.	Our approach will focus on: Ø analysis of the source data and inquiries as to the procedures used by management's specialist to establish whether the source data is complete Ø assessment of the reasonableness of the assumptions and methods used, including their compliance with the SORP Ø consideration of the appropriateness of the timing of when the specialist carried out the work Ø assessment of whether the substance of the specialist's findings are properly reflected in the financial statements Ø reviewing all material capital expenditure and management's assessment of the capital value of this, and the corresponding impairment or disposal of existing assets.

Inherent Risk – Valuation of Pension Liabilities	
What is the risk?	**Our identified response to the risk**
The College participates in two pension schemes; the Highland Council Pension Scheme (LGPS), and the Scottish Teachers Superannuation Scheme (STSS). While both are defined benefit pension schemes, the College is unable to identify its share of the underlying assets and liabilities of the STSS scheme on a consistent and reasonable basis and therefore, the scheme is accounted for as if it were a defined contribution scheme. The Highland Council Pension Scheme is accounted for as a defined benefit scheme. The net pension liabilities on the balance sheet arising from participation in the scheme at 31 July 2017 were £10.4m.	Our approach will include: Ø obtaining an actuarial report at the year end date for the LGPS and considering the reasonableness and consistency of underpinning assumptions, in light of guidance available. Ø we will utilise our in-house actuaries to assess the reasonableness of the key assumptions used such as discount rate, inflation and expected market return Ø ensuring compliance with funding agreements Ø we will perform substantive testing on the verification of the pension assets Ø we will also audit the calculation of the College's valuation of future early retirement liabilities at 31 July.

Ø The valuation of property, plant and equipment and accounting for net pension deficit are assessed as inherent risks. Management involves specialists in the preparation of these accounting valuations and estimates. We utilise our own specialists, as appropriate, to support the core audit team in the performance of audit procedures on these balances.

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

Inherent Risk – Capital financing arrangements	
What is the risk?	Our identified response to the risk
New Campus financing In July and August 2015, the College procured its new campus buildings at Balloch and Inverness using the Scottish Futures Trust's Non-Profit Distributing (NPD) model. Under the NPD arrangement, the College makes monthly service charge "unitary charge" payments which include the capital element of the loan funding together with interest, facilities management and building lifecycle costs. As at 31 July 2017 the present value of future lease payments was reported as £38 million. Given the material value of the NPD liability as well as the complexity of the associated accounting treatment we consider this as an area of higher inherent risk.	Our response will comprise: Ø reviewing the College's NPD accounting and disclosures against the requirements of the SORP and FRS102 and against the underlying contracts Ø reviewing the NPD agreements and accounting model to consider the reasonableness of the NPD disclosure within the financial statements Ø reviewing capital funding transactions, including SFC capital grants, against the requirements of the FRS 102 based SORP Ø reviewing the College's recognition of any assets held for disposal or any disposal, including the appropriateness of the value these are held at within the financial statements Ø discussion with management against our recommendation made in 2016/17 audit results report. In particular, we have recommended management to review the current accounting model to consider the assumptions contained therein, whether these remain appropriate and in particular whether the model should incorporate contingent rent within the calculation. In our planning discussions, we have agreed a process to follow-up on potential queries we identified in the prior year.

Ø The valuation of property, plant and equipment, capital financing arrangements and accounting for net pension deficit are assessed as inherent risks. Management involves specialists in the preparation of these accounting valuations and estimates. We utilise our own specialists, as appropriate, to support the core audit team in the performance of audit procedures on these balances.

We also plan and perform certain general audit procedures on every audit which may not be directly related to financial statement account assertions. Examples of such procedures compliance with applicable laws and regulations, litigation and claims and related parties.

Other audit considerations

Data analytics

We will use our computer-based data analysers to enable us to capture whole populations of your financial data, in particular covering manual journal entries and payroll. These tools:

- Help identify specific exceptions and anomalies to direct more traditional substantive audit tests.
- Give greater likelihood of identifying errors than random sampling techniques.

Use of specialists

When auditing key judgements, such as the valuation of property, plant and equipment, or certain assets and liabilities, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the College's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable.
- Assess the reasonableness of the assumptions and methods used.
- Consider the appropriateness of the timing of when the specialist carried out the work.
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Management may use their own specialists in the preparation of the financial statements. This year we understand management will use specialists as part of its recurring valuation of the yearend pension scheme liabilities. Interim valuation of the College estate is due this year and valuation specialists will be utilised to perform that.

Internal audit

We will review internal audit plans and the results of their work, including the discussion of audit findings at the Audit Committee and management's response to findings.

We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements or our wider responsibilities.

2. Wider scope audit risks

2. Wider Scope Audit Risks

Together the Accounts Commission and the Auditor General for Scotland agreed the dimensions set out in the Code which comprise the wider scope audit for public sector in Scotland. We will audit the College under the small body provisions of the Code and consider financial sustainability and appropriateness of governance disclosures in the financial statement.

Application of Wider Scope

The wider scope audit, as set out in the Code, plays a key role in the public sector audit framework in Scotland. No wider scope audit focus areas for 2017/18 have been identified during our audit planning.

In accordance with Audit Scotland planning guidance, for 2017/18 we have assessed it is appropriate to classify the College as a smaller body for the purposes of our wider scope audit consideration. This will focus our consideration of the College's arrangements more specifically to financial sustainability and governance and transparency matters. The judgement of applying the small body clause is revised annually to reflect that the risks to wider scope dimensions may change.

This change will allow our planned audit work to be proportionate to the nature and size of the College. Under the smaller body provision we will consider the financial sustainability of the College and the services that it delivers over the medium to longer term and the appropriateness of the disclosures in the governance statement.

We undertake certain audit procedures which impact on the wider scope audit dimensions, both separately and as a consequence of our core financial statements audit work. We will report our findings on completion of our audit.

Basis for risk assessment

The Code sets out an expectation that 'significant' risks identified through our planning process that relate to the wider scope dimensions will be communicated with you.

In undertaking our risk assessment in respect of the wider scope audit areas, we distinguish between the definition of 'significant risks' which apply to the audit of the financial statements, by referring in our report to 'Wider Scope Audit Focus Areas', where these have been identified.

Outcome of risk assessment

We have not identified any wider scope audit focus areas for the year. We do, however, recognise that the financial environment in which the college operates continues to be very challenging, with pressures on core SFC grant funding and traditional sources of other income, and pressures on expenditure, including around national bargaining pay agreements for employees and the costs related to maintaining a fit for purpose estate.

We undertake work in respect of our Wider Scope considerations through evidence available to us through various aspects of our core financial statement work, as well as additional specific procedures. We will report accordingly our findings in respect of the following:

- Financial sustainability - our view on the effectiveness of the medium to longer term financial planning arrangements in place at the College, and the risks, assumptions and key sensitivities in relation to financial sustainability facing the College.
- Appropriateness of disclosures in the governance statement - our view on how the College's arrangements and disclosures comply with requirements and best practice in respect of good governance. This includes checking that the College's governance statement reflects arrangements in place.

In line with auditing standards, as part of our consideration of the College's governance arrangements this year, we have written to the College Audit Committee to confirm how those charged with governance ensure oversight of management and appropriate governance arrangements are in place. This is not reflective of specific risks identified at the College but rather in line with our process to periodically make formal inquiries beyond standard management meetings and representations. We understand the College Audit Committee will consider our inquiry at a future Audit Committee and respond accordingly.

3. Timing and deliverables; fees

3. Timing and deliverables

We deliver our audit in accordance with the timeline set by the College, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

JAN
FEB
MAR
APR
MAY
JUN
SEPT
OCT
NOV
DEC

Audit Activity	Deliverable	Expected Timing
Ø Audit planning and setting scope and strategy for the 2017/18 audit Ø Planning meeting with management (23 April 2018) Ø Walkthrough of key systems and processes	Annual Audit Plan	29 May 2018
Ø Year-end substantive audit fieldwork on College unaudited financial statements		
Ø Conclude on results of audit procedures	Issue Annual Audit Report in draft for committee consideration	November 2018
Ø Joint Audit and Finance and General Purposes Committee	Approval of the College Annual Financial Statements	6 December 2018
Ø Full Board of Management Committee to approve financial statements	Sign audit opinion on the College Annual Financial Statements / Finalise Annual Audit Report	18 December 2018

3. Fees

The audit fee is determined in line with Audit Scotland's fee setting arrangements, set out in recent communications to all audited bodies in line with their publication on '*Our Approach to setting audit fees*' (http://www.audit-scotland.gov.uk/uploads/docs/um/audit_fee_approach.pdf).

Audit fees		
Component of fee:	2017/18	2016/17
Auditor remuneration	*£14,370*	*£14,230*
Pooled costs	£920	£890
Contribution to Audit Scotland costs	£800	£810
Total fee	£16,090	£15,930

The auditor remuneration element of the fee is for final agreement between College management and the appointed auditor, and can be increased dependent on circumstances in the audited body

We have agreed with management to set the auditor remuneration at the expected fee element, being £14,370, with a total audit fee for 2017/18 of £16,090 (2016/17: £15,930).

In the prior year audit, we also performed the certification of the Educational Maintenance Allowance return. We have agreed with management that for the 2017/18 audit cycle it will be more efficient if internal audit perform this assurance work as they undertake work on other student support returns.

Appendices

A – Code of Audit Practice: responsibilities

B – Independence report

C – Required communications with the audit committee

A - Code of Audit Practice: responsibilities

The Code of Audit Practice (the Code) summarises the responsibilities on all audited bodies falling within the public sector audit framework. We summarise these on this page.

Responsibilities of audited bodies	
Corporate governance	Each body, through its chief executive or accountable officer, 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. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.
Financial statements and related reports	Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for: • preparing financial statements which give a true and fair view of their financial position and their 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 their financial statements and related reports 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. • maintaining proper accounting records. • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. Audited bodies are 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 their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct / prevention and detection of fraud and error	Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Financial position	Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to: • 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 they plan to deal with uncertainty in the medium and longer term • the impact of planned future policies and foreseeable developments on their 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.

B. Independence report

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communication	
Planning Stage	Final Stage
Ø The principal threats, if any, to objectivity and independence identified by Ernst &Young (EY) including consideration of all relationships between you, your affiliates and directors and us; Ø The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; Ø The overall assessment of threats and safeguards; Ø Information about the general policies and process within EY to maintain objectivity and independence. Ø Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.	Ø In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; Ø Details of non-audit services provided and the fees charged in relation thereto; Ø Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; Ø Written confirmation that all covered persons are independent; Ø Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent reach of that policy; Ø Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and Ø An opportunity to discuss auditor independence issues.

Relationships, services and related threats and safeguards

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We are not aware of any relationships between Ernst & Young LLP and the College that may reasonably be thought to bear on our independence as of the date of this letter.

As part of our considerations for any non-audit engagement, we review potential threats in respect of self-interest, self-review, acting as management and advocacy. There are no non-audit services provided to the College at this time.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate any potential threats identified and we therefore confirm that EY is independent and the objectivity and independence of Stephen Reid, your audit engagement partner and the audit engagement team have not been compromised.

C - Required communications

Required communication	Our reporting to you
Terms of engagement / Our responsibilities Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. Our responsibilities are as set out in our engagement letter.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Planning and audit approach Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Annual Audit Plan
Significant findings from the audit • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Annual Audit Plan Annual Audit Report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Annual Audit Report
Misstatements • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Annual Audit Report
Fraud • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Annual Audit Report
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Annual Audit Report (to be issued on completion of audit work) or as occurring, if material.

Required communication	Reference
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	No such matters have been identified. Annual Audit Report (to be issued on completion of audit work) or as occurring, if material.
Independence Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Annual Audit Plan Annual Audit Report
Internal controls Significant deficiencies in internal controls identified during the audit	Annual Audit Report (to be issued on completion of audit work) or as occurring, if material.
Representations Written representations we are requesting from management and/or those charged with governance	Annual Audit Report (to be issued on completion of audit work) or as occurring, if material.
Material inconsistencies Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Annual Audit Report (to be issued on completion of audit work) or as occurring, if material.

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