Lews Castle College

Annual Audit Plan
Year ending 31 July 2019

Board of Management – 25 June 2019

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 Lews Castle 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 Lews Castle College management and the Audit Committee, sets out our proposed audit approach for the audit of the financial year ending 31 July 2019, the third 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 Board and committee reports, and our general understanding of the environment in which the College is currently operating.

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the College employs best practice and where processes can be improved. We use these insights to form our audit recommendations to support the College in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. 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; relevant Auditing Standards and applicable Practice Notes issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

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 2019 and its surplus or deficit for the year then ended.
- They 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.
- They 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 2018/19 we have assessed it is appropriate to classify the College as a smaller body for the purposes of our wider scope audit consideration. We undertake certain audit procedures which impact on the wider scope audit dimensions as a consequence of our financial statements audit. We will report our findings on completion of our audit.

Materiality

Planning materiality £120,000	Materiality has been set at £120,000 (2017/18 – £120,000), which represents approximately 2% of the gross expenditure for the year.
Tolerable Error £90,000	Tolerable error has been set at £90,000 (2017/18 - £90,000) , which represents 75% of materiality.
Summary of uncorrected differences £6,000	We will report all uncorrected misstatements relating to the primary financial statements greater than £6,000 (2017/18 - £6,000). Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

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.
Misstatement due to fraud or error	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	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 the valuation of property, plant and equipment.
Pension liabilities	Inherent Risk	No change	We have identified an inherent risk in relation to the valuation of the pension liabilities. The College is an admitted body of the Highland Council Pension Scheme. There is judgement involved in determining the appropriate actuarial assumptions to calculate the College's pension liabilities arising from its participation in the scheme, and the valuation of the College's share of fund assets held at the balance sheet date.

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

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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 2018/19 we plan to follow a predominantly 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. Our audit approach includes the use of our bespoke data analysers to allow us to analyse 100% of the College's transactions around key income and expenditure accounts rather than rely on random sampling.

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.

Expenditure on provision of services for the College = £6.1 million	
Planning materiality £120,000	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 2018/19 has been set at £120,000 (2017/18 – £120,000). This represents approximately 2% of the College's reported expenditure in the prior year. The materiality reflects our overall risk assessment of the entity and the sector as a whole.
Tolerable Error £90,000	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 £90,000 (2017/18 - £90,000) which represents 75% of planning materiality.
Summary of Audit Differences £6,000	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 £6,000 (2017/18 - £6,000), which represents 5% of planning materiality.

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.

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.

We consider all accounts and disclosures within the financial statements individually to ensure an appropriate materiality is used. Accordingly we determine it is appropriate to use lower levels of materiality for some areas of the financial statements, including:

- Remuneration report - given the sensitivity around the disclosure of senior staff remuneration we apply a materiality of £1,000 to our audit consideration around the remuneration report and related disclosures.
- Related party transactions – related party transactions are considered material when they are material to either party in the transaction. As such, we do not apply a specific materiality to related party audit work but consider each transaction individually.

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: • review and test all relevant income and expenditure policies against the relevant accounting standards and SORP • review, test and discuss with management any accounting estimates on income and expenditure recognition for evidence of bias • develop a testing strategy to test material income and expenditure streams • review and perform focused testing on income and expenditure around the year end to ensure correct recognition around cut-off between financial periods.

Fraud risk – misstatement due to fraud or error

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. Beyond the noted risk around recognition of income and expenditure, we have not identified a specific account where the risk of management override is higher.	Based on the requirements of auditing standards our approach will focus on: • identifying fraud risks during the planning stages • inquiry of management about risks of fraud and the controls put in place to address those risks • consideration of the effectiveness of management's controls designed to address the risk of fraud • determining an appropriate strategy to address those identified risks of fraud • performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements • specific focus on the accounting for any identified key areas of judgement and estimates in the financial statements and significant and unusual transactions. This will include consideration of any provisions requiring to be made as at the balance sheet date for any restructuring arrangements entered into by the College.

- Significant and fraud 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.
- We will report our findings in these areas to you within our 2018/19 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 £11.5 million as at 31 July 2018. Land and buildings are revalued to fair value with a full revaluation taking place at least every five years, with an interim valuation due during this period between full valuations. The College is due for an interim valuation during 2018/19. Given the size of this balance and the fact that a number of judgemental and expert assumptions are made in the valuation process, we assign a higher inherent risk to property, plant and equipment. We do not at the planning stage have any specific concerns over management's approach to property valuations, however we do recognise the unique challenges to the College in obtaining a valuation for the College estate given its location and purpose.	Our approach will focus on the College's valuation process for the estate, specifically: • analysis of the source data and inquiries as to the procedures used by management's specialist to establish whether the source data is complete; • assessment of the management specialist utilised for the valuation to confirm they are sufficiently skilled and experienced to perform the valuation; • assessment of the reasonableness of the assumptions and methods used, including their compliance with the SORP. We may choose to involve our specialists, where we consider this necessary; • consideration of the appropriateness of the timing of when the specialist carried out the work; • assessment of whether the substance of the specialist's findings are properly reflected in the financial statements, and; • assessment of the potential for impairment across the College estate that has not been reflected in the financial statements or most recent formal valuation.

➢ The valuation of property, plant and equipment is assessed as an inherent risk. Management involves specialists in the preparation of this accounting valuation and estimate. We utilise our own specialists, as appropriate, to support the core audit team in the performance of audit procedures on this balance.

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 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 2018 were £0.7 million. In late 2018, a High Court ruling was made in relation to the equalisation of certain pension benefits payable to men and women, which could impact the measurement of the College's obligation in the Highland Council Pension Scheme going forward. The quantum of impact on the College's share of the scheme liabilities was unclear and deemed unquantifiable at the date of approval of last year's financial statements, with actuaries and pension schemes continuing to work through the impact of the ruling on individual member benefits. In addition the College recognises a provision for future early retirement liabilities of £1 million as of 31 July 2018.	Our approach will include: • obtaining an actuarial report at the yearend date for the College's share of the LGPS and considering the reasonableness and consistency of underpinning assumptions, in light of guidance available. • performing substantive testing on the verification of the pension assets to ensure they are appropriately valued at the College balance sheet date by engaging with the auditors of the Pension Fund in line with the protocols laid out by Audit Scotland for IAS19 assurance. • assessing the work of the actuaries, including the assumptions they have used by engaging internal actuarial specialists to provide input on the consistency and appropriateness of assumptions underpinning the valuation of the pension schemes, and how the impact of the GMP ruling has been considered in the pension liability valuation. • we will also review the calculation of the College's valuation of future early retirement liabilities at 31 July 2019.

➢ Accounting for the net pension deficit is assessed as an inherent risk. Management involves specialists in the preparation of this accounting estimate. We utilise our own specialists, as appropriate, to support the core audit team in the performance of audit procedures on this balance.

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 transactions. These analysers:

- Help identify specific exceptions and anomalies to direct 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.

Financial statements presentation and compliance with the SFC Accounts Direction

We will review the College's financial statements to ensure that financial information agrees to supporting schedules, and that non-financial information is consistent the financial performance and position of the College. We will also review the financial statements against the disclosure requirements outlined under FRS 102, the further education SORP, and the SFC Accounts Direction.

Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 came into force on 26 June 2017 and replace The Money Laundering Regulations 2007. The regulations impose an obligation on the Auditor General to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. As appointed auditor we will consider the College's arrangements to identify and report on any instances of money laundering in line with Audit Scotland reporting arrangements.

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.

In accordance with Audit Scotland planning guidance, for 2018/19 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 around financial sustainability and governance and transparency matters. The judgement of applying the smaller body clause is revised annually to reflect that the risks to wider scope dimensions may change.

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 identified financial sustainability and governance and transparency at the College as wider scope audit focus areas for the year. The rationale for this focus is outlined in our audit consideration on the following pages.

Given the identification of wider scope focus areas around both financial sustainability and governance transparency, we will continue to consider whether the smaller body application remains appropriate for the College. At this stage in our audit planning we consider that it does, as the risk areas identified are considered to be contained to specific matters impacting these wider scope dimensions, rather than indicating a wider issue that could impact the other dimensions that would be considered in a larger body (value for money or financial management). In addition, the College continues to meet the definitions of a smaller body based on its volume and complexity of transactions, and the public interest has not materially altered relative to the rest of the public sector against which the wider scope arrangements are intended to be applied. We will updated our assessment as part of the yearend audit arrangements.

Audit dimension	Risk assessment	Rationale and response
Financial sustainability considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.	Wider scope audit focus area	In our 2017/18 audit report we concluded that the College was continuing to face pressures around its financial sustainability. The College's forecast underlying financial position through to 2023 was a £240,000 underlying surplus over the next five years, however this was subject to a number of significant assumptions and sensitivities around future income receipt and costs, in particular around pay increases for staff and estate management costs. The financial environment in which the College operates continues to be challenging, as is the case across the sector as financial pressures from pay bargaining and funding settlements continue. The College's forecast position for 2018/19 at the end of March is a deficit of £50,000, a negative variance of £20,000 from the College's approved budget for the year. This is primarily due to HE numbers falling below expectation. The College expects to miss its FE target in 2018/19 by 4%, but exceed the HE target by 2%, as does UHI as a whole. We also recommended improvements that could be made to the medium term financial planning arrangements, both in respect of improving governance arrangements around future financial forecasts and alignment between financial and strategic plans. Based on our findings in 2017/18 and planning inquiries to date we have identified this area as a wider scope area of audit focus in 2018/19. Our work for the year will consider specifically: • Have robust financial plans been put in place over the medium term at the College? Are assumptions included in financial plans robust and appropriate? Do they align to strategic and operational plans (and visa versa)? • Where new gaps in financial plans are identified following changes to key assumptions and sensitivities, is the College taking corrective action through savings plans and is the pace and scale of these actions sufficient to ensure financial sustainability?

Audit dimension	Risk assessment	Rationale and response
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.	Wider scope audit focus area	In our 2017/18 Annual Audit Report we concluded that the College's governance arrangements were developing, however the pace of change required improvement. A number of areas from previous audit reports and self-assessments remained in progress to varying degrees. In particular, a number of areas from the Board's self-effectiveness review had yet to be fully implemented. Accordingly, we have identified governance and transparency as a wider scope area of audit focus. Our work for the year will consider: • Is the Governance Statement within the financial statements complete and does it reflect key findings from audit, scrutiny and inspection? Where non-compliance with the code of good governance is identified are appropriate mitigating actions in place and disclosed? • Progress against prior year audit recommendations from both internal and external audit. • Internal audit arrangements during 2018/19, including significant findings identified and the work done to address issues identified. • The quality of arrangements in place to support good governance at the College, including ensuring the College has processes in place to consider national reports and take action where appropriate. • Arrangements to ensure there is sufficient transparency around governance and decision making arrangements at the College. In line with auditing standards, as part of our consideration of the College's governance arrangements this year, we will be writing to the College Audit Committee to confirm how those charge 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 annually make formal inquiries beyond standard management meetings and representations. In 2018/19 the College is required to participate in Scotland's National Fraud Initiative ("NFI") exercise, whereby public bodies share financial information to identify possible fraudulent activity where monies may be recoverable. We will consider the College's own self-assessment of how well NFI practices and culture is embedded and report back to Audit Scotland. We will report any significant findings within our Annual Audit Report. Similar to 2017/18, Audit Scotland requires us to consider the adequacy of the College's preparations for EU withdrawal. This will include forming an overall judgement on the College's preparedness at 31 March 2019 and any subsequent updates.

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 2018/19.

MAR | APR | MAY | JUNE | AUG | SEPT | OCT | NOV | DEC

Audit Activity	Deliverable	Expected Timing
➢ Review of current issues impacting the College throughout the audit process	Periodic current issues return submission	22 March 2019 8 November 2019
➢ Audit planning and setting scope and strategy for the 2018/19 audit	Annual Audit Plan	25 June 2019
➢ Walkthrough visit	Completion of internal documentation	24 June 2019
➢ Review progress of the NFI exercise	Submit NFI questionnaire	30 June 2019
➢ Year-end substantive audit fieldwork on unaudited financial statements	Audited financial statements	October 2019
➢ Conclude on results of audit procedures and finalise Annual Audit Report ➢ Issue opinion on the College's financial statements	Issue Annual Audit Report to Joint Audit and Finance Committee and SFC / Audit Scotland on completion Submit Audit Scotland minimum dataset request	Audit and Finance Committee 10 December 2019 Board approval of financial statements 17 December 2019 SFC and Audit Scotland deadline - 31 December 2019

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:	2018/19	2017/18
Auditor remuneration	£17,000	£16,610
Fee variation in respect of wider scope focus areas	£3,250	£2,900
Pooled costs	£980	£1,060
Contribution to Audit Scotland costs	£1,030	£920
Total fee	£22,260	£21,490

We have agreed with management to set the auditor remuneration at £20,250 (2017/18: £19,510). This reflects the base expected fee set by Audit Scotland for the year, then adjusted to reflect the additional financial statement and wider scope risks identified around the College's estate valuation, and the wider scope risks identified in this report around the financial sustainability and governance and transparency at the College.

The total fee for the year is £22,260 (2017/18: £21,490). All fees noted are inclusive of VAT.

The fee quoted is based on the assumption of no additional risks beyond those noted, and no additional issues to the core financial statements beyond the presumed risks required by the financial statements. It assumes the timely delivery of all required information, including high quality draft financial statements and supporting schedules, in line with agreed delivery dates. Should these deliverables not be met, or there be a need to modify our opinion on the financial statements, we will seek additional fees to reflect the additional audit time required.

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
• 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; • The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; • The overall assessment of threats and safeguards; • Information about the general policies and process within EY to maintain objectivity and independence. • Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.	• 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; • Details of non-audit services provided and the fees charged in relation thereto; • 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; • Written confirmation that all covered persons are independent; • 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; • Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and • 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 in 2018/19 (2017/18: nil).

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.

EY

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.

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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