

Edinburgh College

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for Edinburgh College

May 2021

Who we are

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

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



About us

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

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

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

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.
3. The public health crisis caused by the coronavirus disease (Covid-19) has had a profound effect on every aspect of Scottish society. Public services have been affected significantly, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
4. Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits.
5. We published a further [update](#) on the impact of Covid-19 on public audit in January 2021, which recognised that the reintroduction of restrictions affects our capacity for audit work. It may also affect the capacity of some public bodies to prepare accounts. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, changes to this annual audit plan may be necessary. We will continue to engage with management to discuss this and how we can work together to respond as required.

Adding value


6. We aim to add value to Edinburgh College through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help Edinburgh College promote improved standards of governance, better management and decision-making and more effective use of resources. Examples in recent years include providing additional insight into the application of the going concern basis of accounting in a public sector context and providing technical assistance with the College's review of its accounting policies, pensions disclosures, and the content of the performance report and the corporate governance statement.


Audit risks


7. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant audit risks for our 2020/21 audit of Edinburgh College. We have categorised these risks

into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2020/21 Significant audit risks

|  Audit Risk | Source of assurance | Planned audit work |
|--|---|--|
| Financial statements risks | | |
| <p>1. Risk of material misstatement caused by the management override of controls</p> <p>International Auditing Standards (ISA 240) require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p> | <p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p> | <ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates and judgements • Focused testing of accruals and prepayments • Focused testing of accounting adjustments at the year end • Evaluation of significant transactions that are outside the normal course of business • Cut-off testing to confirm transactions have been accounted for in the correct financial year. |
| <p>2. Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of pensions and provisions.</p> <p>This subjectivity represents an increased risk of material misstatement in the financial statements.</p> | <p>Controls are in place to ensure accurate provision of data to actuaries.</p> <p>Pension figures are derived from valuation calculations prepared by appointed actuaries.</p> <p>The finance team reviews the actuarial information to ensure data and assumptions used are reasonable.</p> <p>Sound arrangements are in place for identifying and assessing accounting provisions.</p> | <ul style="list-style-type: none"> • Review of accounting estimates and policies to ensure they are appropriate and properly applied • Confirm pension valuations in actuarial report are correctly reflected within the 2020/21 financial statements • Review of the work of the actuary, including consideration of the appropriateness of actuarial assumptions used • Testing of pension disclosures, including data that Edinburgh College provides to actuaries • Focused substantive testing of provisions and related disclosures including the provision of accommodation occupancy costs. |
| <p>3. Risk of misstatement due to Covid-19 disclosure requirements</p> | <p>The College's assessment of whether it acted as an agent or a</p> | <ul style="list-style-type: none"> • Review further technical guidance when available |

|  Audit Risk | Source of assurance | Planned audit work |
|---|--|--|
| <p>In March 2021, the Scottish Funding Council (SFC) announced additional, non-recurring Covid-19 support funding of £24 million for the college sector in the 2020/21 financial year. Edinburgh College received approximately £2.3 million of this funding for financial stability, protecting jobs and helping students. As a result, the College has been providing grant funding to its students for digital support and for supporting the losses incurred by students as a result of Covid-19.</p> <p>There is a risk of disclosure misstatement for this new area of expenditure. Agency expenditure will need to be separated from the Covid-19 funding the College has received to support its own budget.</p> | <p>principal for individual Covid-19 support grants.</p> | <p>and discuss with the College's finance team.</p> <ul style="list-style-type: none"> Review Covid-19 disclosures in the 2020/21 annual accounts for accuracy and completeness. |
| <hr/> Wider dimension risks <hr/> | | |
| <p>3. Financial sustainability</p> <p>The College's financial forecasts for 2021/22 to 2024/25 show that cumulative savings of £3.3 million will be required to achieve its projected break-even 'adjusted operating position' in each of the four years. The College expects to save £1.5 million from the recently completed first phase of the voluntary severance scheme and the removal of vacant posts but it will need to identify further savings and make difficult decisions on its future spending.</p> <p>There are a number of medium-term financial challenges such as a projected shortfall in commercial income, cost of living and increasing employer's pension contributions. There is also a range of uncertainties with the impact of Covid-19 and with EU withdrawal. The College is monitoring these risks in its risk register, with similar financial pressures seen across the college sector as a whole.</p> <p>There is a risk that the College is not able to achieve the forecast savings and its financial position worsens as a result. This could impact its cash flows and operations.</p> | <p>Committee oversight of financial reports to keep projected savings under review.</p> <p>Risk register regularly monitored by appropriate committees and the board.</p> <p>Regular engagement with Scottish Funding Council.</p> <p>Development of a long-term financial strategy to help identify challenges with funding and savings at an early stage.</p> <p>Board's consideration of implications of Covid-19 and of EU withdrawal.</p> | <ul style="list-style-type: none"> Review of the College's five-year financial plan including monitoring of progress with achievement of financial targets, planned savings and student credit targets Monitoring of the College's progress with the development of a longer-term financial strategy, including the assumptions used Review of the College's Financial Forecast Return for 2021/22-2023/24. |
| <p>4. Covid-19 related support funding</p> <p>The College has received additional, non-recurring support funding from the Scottish Funding Council (SFC)</p> | <p>Effective governance, anti-fraud arrangements at the College.</p> | <p>We will consider:</p> <ul style="list-style-type: none"> the nature and extent of Covid-19 funding provided to the College and |

|  | Audit Risk | Source of assurance | Planned audit work |
|---|---|--|--|
| | <p>to help address the disruption caused by Covid-19.</p> <p>Decision-making in a fast moving environment presents challenges for the College and other public bodies. These include maintaining good governance and controls while making decisions quickly, adapting performance measures and ensuring that anti-fraud arrangements remain robust at a time when the risk of fraud is increased.</p> <p>There is a risk that the College's governance and control frameworks in relation to Covid-19 spending are not effective.</p> | <p>Regular discussions between the College and the SFC on compliance with the grant conditions.</p> <p>Separate supporting working papers maintained by Finance team for Covid-19 grant funding.</p> <p>The written report from the College to the SFC on the distribution of the support funding at the end of the current academic year.</p> <p>Internal audit's review of financial controls and change management processes in the current Covid-19 environment.</p> | <p>distributed by the College as grants</p> <ul style="list-style-type: none"> • the key financial controls over Covid-19-related income and expenditure • the governance arrangements for distributing Covid-19 support funding, including effective scrutiny and steps taken to minimise fraud and error • performance outcomes for the effective spending of the Covid-19 support funding • the written report to the SFC on the distribution of the support funding • the work by internal audit on financial controls and change management processes in the current Covid-19 environment. |
| | <p>5. Cyber security – governance and risk management</p> <p>Cyber-attacks are an increasing threat to organisations, as evidenced by recent incidents affecting public bodies. This risk is heightened due to the impact of Covid-19, such as home-working and changes to internal controls.</p> <p>Cyber security continues to be one of the top risks identified by the College. In 2019/20, internal audit provided 'limited assurance' over the design and operational effectiveness of the College's arrangements in relation to cyber security, with a number of areas for improvement identified.</p> <p>There is a risk that a cyber-attack could disrupt College systems, including key financial systems.</p> | <p>The College continues to progress towards implementing internal audit recommendations on cyber security.</p> <p>Regular review and assessment of cyber security on the Operational Risk Registers and the Top Level Risk Register.</p> <p>Internal audit follow up on the College's progress with implementing recommendations.</p> | <ul style="list-style-type: none"> • Consider internal audit's follow up of the College's progress with implementing recommendations on cyber security • Consider disclosure of cyber security risk in the corporate governance statement within the annual report and accounts. |

Source: Audit Scotland

8. As set out in ISA (UK) 240, there is a presumed risk of fraud over income recognition. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk for 2020/21 due to the extent of income received from other parts of the public sector. For example, Edinburgh College is estimated to receive 81% of its projected income in 2020/21 from the SFC. For the remaining areas of income that are subject to some risk, we have considered the likely incidence of fraud and have

assessed that the volume of income transactions that would need to be fraudulent to result in a material risk is implausible.

9. In line with Practice Note 10, as most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. We have rebutted the presumed risk of fraud over expenditure in 2020/21 on the basis of our assessment of the likely incidence of fraud in individual expenditure streams such as staff costs (73% of the College's total prior year expenditure). We used the National Fraud Initiative results in this assessment and, as with income transactions, we have assessed that the volume of expenditure transactions that would need to be fraudulent to result in a material risk is implausible. Our audit testing is directed towards testing significant and unusual transactions, and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We review controls over key areas of risk and will review any additional controls required due to Covid-19 expenditure.

Reporting arrangements

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

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

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

Exhibit 2 2020/21 Audit outputs

| Audit Output | Target date | Committee Date |
|------------------------------|--|------------------|
| Annual Audit Plan | 19 May 2021 | 26 May 2021 |
| Management Report | 19 May 2021 | 26 May 2021 |
| Annual Audit Report | 17 November 2021 | 24 November 2021 |
| Independent Auditor's Report | As soon as possible following the Board meeting in December 2021 | N/A |

Source: Audit Scotland

Audit fee

13. The proposed audit fee for the 2020/21 audit of Edinburgh College is £30,840 [2019/20: £30,100]. In determining the audit fee, we have taken account of the risk exposure of the College and the planned management assurances in place. Our audit approach assumes receipt of the unaudited annual accounts with a complete working papers package on 27 September 2021.

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

Responsibilities

Audit & Risk Assurance Committee and Board of Management

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

16. The audit of the annual accounts does not relieve management or the Audit and Risk Assurance Committee, as those charged with governance, of their responsibilities.

Appointed auditor

17. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

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

Audit scope and timing

Annual accounts

19. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

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

20. We will give an opinion on whether the financial statements, as to:

- whether they give a true and fair view of the state of affairs of Edinburgh College as at 31 July 2021 and of its income and expenditure for the year then ended
- have been properly prepared in accordance with relevant legislation and the applicable financial reporting framework
- the regularity of income and expenditure.

Statutory other information in the annual accounts

21. We also review and report on statutory other information published within the annual accounts including the performance report, accountability report including the corporate governance statement, and the remuneration and staff report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

22. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

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

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



Exhibit 3

Materiality values

| Materiality | Amount |
|---|----------|
| Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 July 2021 based on the projected outturn in the January 2021 management accounts. | £670,000 |
| Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality. | £400,000 |
| Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality. | £35,000 |



Source: Audit Scotland

Timetable

25. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Assurance Committee dates. As per paragraph 5, we will adopt a pragmatic and flexible approach. While our intention is to work to the target dates set out below, these are subject to potential change due to ongoing developments associated with Covid-19.

Exhibit 4

Annual accounts timetable

|  Key stage |  Date |
|---|--|
| Latest submission date of unaudited annual report and accounts with complete working papers package | 27 September 2021 |
| Latest date for final clearance meeting with the Head of Finance and Chief Operating Officer | 29 October 2021 |
| Agreement of audited unsigned annual report and accounts | 17 November 2021 |
| Issue of Annual Audit Report to those charged with governance | 17 November 2021 |
| Issue of Letter of Representation and proposed independent auditor's report | 17 November 2021 |
| Independent auditor's report signed | By 31 December 2021 |

Internal audit

26. Internal audit is provided by BDO. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA (UK) 610 requires an assessment on whether the work of

the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

27. We will report any significant findings to management on a timely basis.

Using the work of internal audit

28. International Auditing Standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication.

29. We plan to consider the findings of the work of internal audit such as its review of payroll controls, the job retention scheme, and of financial controls and change management processes in the Covid-19 environment. This is to minimise duplication of effort and ensure that total resource is used efficiently.

Audit dimensions

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

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

Financial management

31. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively

- the effectiveness of budgetary control systems in communicating accurate and timely financial performance can be demonstrated
- how the College has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption. This will include a high-level assessment of the arrangements for preventing fraud within the College's procurement activities.

Financial sustainability

32. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

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

Governance and transparency

33. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

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

Value for money

34. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the College can demonstrate progress in developing its performance management reporting arrangements.

Independence and objectivity

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

36. The engagement lead (i.e. appointed auditor) for Edinburgh College is Ursula Lodge, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Edinburgh College.

Quality control

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

38. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

39. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Edinburgh College

Annual Audit Plan 2020/21

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

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