

# Forth Valley College

Annual Audit Plan  
Year ending 31 July 2021

Audit Committee  
20 May 2021



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## 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 Forth Valley College College ("the College") for financial years 2016/17 to 2020/21. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22. We undertake our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

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 Hywel Ball, 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.

# 1. Executive summary

## Our key contacts:

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## Our independence

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

## Purpose of this report

In accordance with the Public Finance and Accountability (Scotland) Act 2000, Audit Scotland appointed EY as the external auditor of Forth Valley College (the College) for the five year period 2016/17 to 2020/21. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22.

This Annual Audit Plan, prepared for the benefit of College management and the Audit Committee, sets out our proposed audit approach for the audit of the financial year ending 31 July 2021, the fifth 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 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. These are highlighted throughout our reporting together with our judgements and conclusions regarding arrangements.

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

## Scope and Responsibilities

This Annual Audit Plan covers the work that we plan to perform to provide you with our opinion on whether the College's financial statements (the financial statements) give a true and fair view of the College's affairs as at 31 July 2021 in accordance with applicable law and the financial reporting framework. We also report on the regularity of transactions, as required by the Scottish Funding Council.

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 of both the College and the auditor, more details of which are provided in Appendix A.

## Our Financial Statement Audit

We are responsible for conducting an audit of the financial statements of the College. We provide an opinion 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 2021 and its 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; and
- ▶ whether 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 the financial statements.

### Materiality

Materiality levels have been set at the planning stage of the audit as follows:

Planning Materiality

**£880,000**

2% of the College's gross forecast expenditure

Tolerable Error

**£660,000**

Materiality at an individual account level

Nominal amount

**£44,000**

Level that we will report misstatements to committee

Based on considerations around the expectations of financial statement users and qualitative factors, we apply a lower materiality level to the audited section of the Remuneration Report. We also apply professional judgement to consider the materiality of related party transactions to both parties.

### Wider Scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- ▶ Financial management;
- ▶ Financial sustainability;
- ▶ Governance and transparency; and
- ▶ Value for Money

Our audit work over the wider scope audit dimensions complements our financial statements audit. We have updated our understanding of the risks impacting the College through discussions with management, review of relevant committee reports, and our knowledge of the education sector.



# Audit Risk Dashboard

## Key Financial Statement Risks

<b>Fraud Risk:</b> Risk of fraud in revenue and expenditure recognition	In accordance with ISA (UK) 240, we consider the presumed fraud risk in respect of improper income recognition. 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. During 2020/21, we will consider the impact of additional Covid-19 income streams on the College.
<b>Fraud Risk:</b> Misstatement due to fraud or error	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.
<b>Inherent risk:</b> Valuation of property, plant and equipment	The value of property, plant and equipment (PPE) represent significant balances in the College's financial statements. Management is required to make material judgemental inputs, including the assessment of any required impairment, and to apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
<b>Inherent risk:</b> Valuation of pension assets and liabilities	<p>Accounting for the Local Government Pension Scheme (LGPS) involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The Falkirk Council Pension Fund triennial valuation was completed as at 31 March and will therefore inform the valuation as at 31 March 2021.</p> <p>ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts, the assumptions underlying fair value estimates, and the valuation of the College's share of scheme assets and liabilities at the year end.</p>
<b>Financial Sustainability:</b> Medium Term Financial Planning	<p>The full impact of the global pandemic on the College's education and financial plans has continued to evolve throughout 2020/21. In the short term, there is the impact of government funding, including furlough income, and direct financial support from the Scottish Funding Council. The College has also managed the move to blended learning well, with relatively few deferrals to 2021/22. As a result, the acute financial pressures facing the College in 2020/21 have eased.</p> <p>The College is due to prepare an updated financial forecast in June 2021. Our expectation is that this will continue to reflect significant financial pressures in the medium to long term.</p>

## 2. Sector developments

In accordance with the principles of the Code, our audit work considers key developments in the sector. We obtain an understanding of the strategic environment in which the College operates to inform our audit approach.

### **The context for financial sustainability in the FE sector**

As we noted within our Annual Audit Report, during 2020, the Scottish Funding Council released three reports considering the future of colleges and universities. In October 2020 the Scottish Funding Council (SFC) published their review of coherent provision and sustainability which considered how best the SFC can fulfil its mission of securing coherent provision by post-16 education bodies, and the undertaking of research in these changing times. The review covered future provision, delivery, outcomes and targets, funding models and support for research activity across the college and university sector in Scotland.

Specifically, as part of this review, the SFC published their updated analysis of the sector within their report, The Financial Sustainability of Colleges and Universities in Scotland. This reflects on the specific financial challenges the sector was facing prior to the impact of Covid-19, including cost pressures from cost of living pay awards, employers' pension contributions, maintaining the college estate and the UK's exit from the European Union, and notes that colleges were already implementing transformation plans to address those challenges. Covid-19 has, in some cases, resulted in the delay of these transformation plans, particularly where they relate to severance and commercial income growth. The main impact of Covid-19 is considered to be felt most by the sector during the 2020/21 financial and academic year.

Recognising the financial challenges facing colleges in the upcoming period, the SFC has identified a number of actions to further support colleges including:

- ▶ Targets - SFC will not recover funds for shortfalls against outcome agreement targets where these are related to Covid-19;
- ▶ Capital Funding - £2.3 million of additional funding for colleges has been awarded to support the provision of ICT equipment to help tackle digital poverty. In addition, the SFC announced £6.5 million of additional capital funding to support the economic recovery in 2020/21;
- ▶ Cash advances - SFC has provided flexibility in grant drawdowns to several colleges encountering liquidity challenges; and
- ▶ Flexibilities in relation to Flexible Workforce Development Fund, Student Support funds and credits.

We will continue to review the full impact of the financial savings requirements outlined in the Financial Forecast Return (FFR) against the College's strategic objectives as part of our work on financial sustainability.

## **Additional Funding for Colleges 2020/21**

Additional non-recurring Covid-19 support funding was announced as part of the Scottish Government's budget update statement on 16 February 2021. This included an additional £60 million for further and higher education, specifically to support universities and colleges maintain research activity, project jobs, help students and boost research and knowledge exchange.

The SFC subsequently announced additional funding of £15.3 million for colleges on 24 March 2021, applicable for the financial year 2020/21. The SFC noted that this funding will help address the major impact that Covid-19 has had on colleges, including:

- ▶ Reduced income, including from commercial contracts and residencies, affecting research funding and putting jobs at risk;
- ▶ Additional costs such as adjustments to campuses and facilities to allow for social distancing; and
- ▶ General weakening of financial sustainability.

Recognising that all colleges are facing financial pressures, the additional £15.3 million has been allocated to colleges in proportion to their respective core teaching grant allocations for Academic Year 2020/21. The conditions of the grant funding are further outlined within the SFC's *Additional funding for Colleges in FY 2020/21* report, as well as confirmation that the release of this additional funding is to be used for FY 2020/21.

## **2021/22 Budget**

The SFC announced the indicative funding allocations for the Academic Year 2021/22 on 24 March 2021. The indicative funding allocations set out are based on the Scottish Government's draft budget 2021/22 announcement on 28 January 2021 which was approved by the Scottish Parliament on 9 March 2021. The approved Scottish Budget 2021/22 set a College Resource (Revenue) budget for the financial year 2021/22 of £675.7 million, an increase of £35.7 million (5.6%) from 2020/21.

The SFC provides indicative funding allocations to help colleges plan for the forthcoming academic year, with final funding allocations to be published by the end of May 2021. The SFC's indicative funding announcement notes that:

- ▶ The SFC's revenue budget for 2021/22 has increased by 10.8% (£70.2 million) from AY 2020/21;
- ▶ Teaching funding has been increased by 8% (£29.8 million);
- ▶ Student support funding has increased by 1.9% (£2.6 million), and there is additional student support contingency funding set aside;
- ▶ The other programme funding budget, which includes national sector-wide services and strategic projects, has increased by £13.1 million;
- ▶ Student activity (credit) volume for the sector has been increased by 3.6% (circa 63,000 credits), largely as a result of creditors for Foundation Apprenticeships and deferred students; and
- ▶ Capital funding has decreased by £2 million, with sector-wide capital maintenance reducing by 6.2% (£1.8 million).

# 3. Financial Statement Risks

## Introduction

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 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 2021 and its 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; and
- ▶ whether 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 report on the regularity of transactions, as required by the Scottish Funding Council, and review and report on the consistency of the other information prepared and published by the College along with the financial statements.

## Other Statutory Information

The management commentary and narrative reporting continues to be an area of increased scrutiny as a result of rising stakeholder expectations, including continuing interest by the Financial Reporting Council. We will therefore continue to work with the finance team to support the continued improvement of the financial statements, including narrative disclosures, in 2020/21.



## **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.
- ▶ Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the 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 2020/21 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.

## 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 expectations regarding our detection of misstatements in the financial statements if required.

Materiality Level	Rationale
Planning Materiality £880,000	<b>Planning materiality (PM)</b> - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. For planning purposes, materiality for 2020/21 has been set at £880,000. This represents approximately 2% of the College's forecast expenditure for the year.
Tolerable Error £660,000	<b>Tolerable error (TE)</b> - 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 £660,000 which represents 75% of planning materiality.
Summary of Audit Differences £44,000	<b>Summary of Audit Differences (SAD) Nominal amount</b> - 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 £250,000. We have set it at £44,000, which represents 5% of planning materiality.

In 2019/20, we reduced our materiality due to rapid changes in the external environment in which the College operates. We have determined that in 2020/21 it is appropriate to reinstate materiality at 2%, given the reduced immediate uncertainties in the external environment.

The bases for the materiality outlined are consistent with our approach in previous years. 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.

Based on these considerations, we apply lower materiality levels to the following areas we consider to be material by nature rather than size:

- ▶ Remuneration Report; and
- ▶ Related Party Transactions.

We will therefore review the disclosures related to the above areas in greater detail compared to the materiality thresholds outlined above.

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.

## Going Concern compliance with ISA 570

We outlined in our 2019/20 reporting to the committee the impact that the Covid-19 pandemic had on the further education sector, and the increased levels of uncertainty within the forecasts used as part of the College's going concern assessment. As a result, in 2019/20, we placed additional focus on significant judgements made to conclude whether events or conditions indicate that a material uncertainty existed that may cast significant doubt on the College's ability to continue as a going concern. The judgements made determined the appropriate disclosures to be made in the financial statements, and allowed us to consider the impact on our audit opinion.

A revised auditing standard relating to our work on going concern, ISA 570, is effective for the audit of the College's 2020/21 financial statements. The revised standard increases the work we have been traditionally required to perform when assessing whether the College is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards, and much more in line with the required work undertaken by management and the audit team in 2019/20.

Auditing standards have been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly afterwards.

The revised standard requires:

- ▶ challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- ▶ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the College obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- ▶ improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the College is not one of these three entity types listed, we will ensure compliance with any updated reporting requirements;
- ▶ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- ▶ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

A revised version of Practice Note 10 Audit of Financial Statements and Regularity of Public Sector Bodies in the UK (PN 10) was issued in November 2020. A significant aspect of PN 10 is the guidance on applying ISA (UK) 570 Going Concern to the public sector. This notes the importance of the applicable financial reporting framework in determining the extent of the auditor's procedures. Our work will also take cognisance of recent guidance issued by Audit Scotland. As in prior years, due to the anticipated continuation of service provision, the going concern basis of accounting will continue to be appropriate for the College.

## **Covid-19 - Impact on Financial Statements**

In our reporting through 2020, we outlined how the ongoing disruption to daily life and the economy as a result of the Covid-19 virus was having a pervasive impact upon the preparation of financial statements for all bodies across the further education sector, and will do so for the foreseeable future. Financial statements now need to reflect the impact of Covid-19 on the College's financial position and performance. There continues to be a wide range of ways in which Covid-19 can impact the financial statements, potentially impacting the accounting and disclosure requirements throughout. We have outlined through this report how these may include, at a minimum:

- ▶ Management's assessment of going concern.
- ▶ Revenue recognition accounting for where activity has materially changed and where new income streams have occurred such as from government support.
- ▶ The valuation of fixed assets, in particular the ongoing use of the College estate.
- ▶ The valuation of future pension liabilities and scheme assets.
- ▶ Potential impairment of receivables.
- ▶ Financial statement disclosures, including the Annual Governance Statement.

We will report on the full impact of Covid-19 on the College's financial statements, and how we have responded to the additional risks of misstatement, as part of our reporting at the yearend to the committee, including supplementing this audit planning report with any material changes to our detailed risk assessment and audit approach for the yearend audit, where required.

## **Covid-19 - Impact on Audit Process**

The extensive nature of the Covid-19's impact on the financial statements and underlying accounting arrangements drives our assessment that the risk is considered pervasive to the financial statement audit. In addition to the impact on the financial statements themselves, the disruption caused by Covid-19 may impact on management's ability to produce financial statements and our ability to complete the audit to the planned timetable. For example, it will continue to be more difficult than usual for finance teams to collate and for us to access the supporting documentation necessary to support our audit procedures. As with the 2019/20 audit, this will need to be mitigated by additional audit procedures to respond to the additional risks caused by the factors noted above.

We have outlined the planned timing for the key deliverables of the audit process in Appendix D. These reflect the agreed intention to continue to work closely with management to review timeframes and logistics for the completion of the audit in 2020/21. All deadlines will continue to be reviewed throughout the year as circumstances change, however the FRC and Audit Scotland have made clear that any deadlines are secondary to the primacy of audit quality and ensuring completeness of work regardless of the environment in which audit takes place.

We will aim to continue to take a pragmatic and flexible approach in the current environment.

# Significant Risks

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 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

Under ISA 240 there is a presumed risk that income 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 means we also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Other than income and expenditure recognition, we have not identified any specific areas where management override will manifest as a significant fraud risk, however we will continue to consider this across the financial statements throughout the audit.

We consider there to be a specific risk around SFC income and expenditure recognition through:

- ▶ Incorrect income and expenditure cut-off recognition to alter the College's financial position around the financial year end.
- ▶ Incorrect recognition applied to grant income with conditions.

We also recognise a revenue recognition risk for other SFC grants where performance conditions are in place, tuition fee income and other grants and operating income in respect of possible manipulation of cut-off around the financial year end.

We recognise the same risk around incorrect recognition of other operating expenditure in line with Practice Note 10.

Work we will undertake:

- ▶ review and test all relevant income and expenditure policies against the relevant accounting standards and SORP
- ▶ review, test and challenge management around any accounting estimates on income and expenditure recognition for evidence of bias
- ▶ develop a testing strategy to test all material income and expenditure streams
- ▶ test all material grant income with performance conditions to ensure the income is recognised correctly in line with the outlined requirements
- ▶ review and perform focused testing on income and expenditure around the year end to ensure correct recognition around cut-off between financial periods
- ▶ perform testing for any evidence of clawback of income where conditions for entitlement have not been met
- ▶ review and develop a testing strategy for Covid-19 related income streams, including furlough income and additional Covid-19 related grant income
- ▶ assess and challenge manual adjustments or journal entries by management around the year end for evidence of management bias and evaluation of business rationale and evidence



## Fraud Risk - Misstatement due to fraud or error

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 auditor, 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:

- ▶ identifying fraud risks during the planning stages
- ▶ inquiry of management about risks of fraud and the controls put in place to address those risks including segregation of duties
- ▶ 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, as applicable.

From 2020/21, our work around estimates in particular will be required to comply with the requirements around the revised ISA (UK) 540.

We will report our findings in these areas to you within our 2020/21 Annual Audit Report.

## Inherent Risk - Valuation of Property, Plant & Equipment

The College's property portfolio totals £125.836 million as at 31 July 2020, with the major elements of this being in respect of land and buildings. Land and buildings are revalued to fair value with a full revaluation taking place at least every five years. Management engaged external valuers to conduct a full valuation of the land and buildings estate as at 31 July 2020.

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

The College is required to consider annually that the valuation of the College estate remains appropriate outside of formal revaluation cycles.

In the prior year the College has completed construction of a new £78 million Falkirk Campus. Management commissioned a valuation as at 31 July 2020. The sale of the old campus was renegotiated and agreed at £2 million (previously valued at £4 million) creating a funding shortfall for the new campus. At the yearend there was also a degree of uncertainty surrounding the repayment of the £2 million sale proceeds which was advanced to the College from SFC.

Given the size of this balance and the number of assumptions that are made in the valuation, we assign a higher inherent risk to property, plant and equipment. The impact of Covid-19 on the use of assets and future plans means that we will place significant scrutiny on management's assessment of impairment.

Our approach will focus on:

- ▶ 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 reasonableness of the assumptions and methods used, including their compliance with the SORP
- ▶ 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
- ▶ consideration of the material uncertainty that management's specialist may add to their valuation reports due to Covid-19, and the potential impact on our audit approach and opinion. We may consult as required.
- ▶ assessment of the potential for impairment across the College estate that has not been reflected in the financial statements or most recent formal valuation
- ▶ assessment of specialist's findings for assets held for resale, and whether these valuations have been correctly processed in the financial statements through testing of accounting entries
- ▶ assessment of the College's backlog maintenance estates plans, including consideration of whether backlog maintenance expenditure in the year has been correctly accounted for as capital or revenue expenditure
- ▶ considering the appropriateness of the accounting treatment for the Falkirk Campus sale proceeds that require to be repaid to the SFC.

## Inherent Risk – Valuation of Pension Liabilities

The College participates in two pension schemes: the Local Government Pension Scheme (Falkirk Council Pension Fund (FPF)), 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 Further and Higher Education SORP and the SFC Accounts Direction require the College to make extensive disclosures within the financial statements regarding its membership of the Falkirk Council Pension Fund. The information disclosed is based on the report issued by the College's actuary.

Triennial valuations of Scottish Local Government Pension Schemes (LGPS) were completed in March 2021. This will identify the funding level in each scheme and inform future funding and investment strategies as well as determining the level of employer and employee contribution rates from 2021/22 onwards.

FPF 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 2020 were £26.7 million (2018/19: £14 million).

Accounting for this scheme involves significant estimation and judgement, including financial and demographic assumptions. The College engages an actuary to undertake the calculations on their behalf.

ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach will include:

- ▶ obtaining an actuarial report at the year end date for the scheme and considering the reasonableness and consistency of assumptions underpinning such reports, in light of guidance available
- ▶ performing substantive testing on the verification of the pension assets, by engaging with the auditor of Falkirk Council Pension Fund in line with the assurance protocols laid out by Audit Scotland for IAS 19
- ▶ engage our actuarial specialists to assess the work of the actuary (Hymans Robertson), including the assumptions they have used and their assessment of the liability due to recent legal rulings including McCloud and Goodwin
- ▶ we will also review the calculation of the College's valuation of future early retirement liabilities at 31 July 2021
- ▶ review and test the accounting entries and disclosures made within the College's financial statements in relation to IAS 19.

## Other audit considerations

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 includes compliance with applicable laws and regulations, litigation and claims and related parties.

### **Accounting Framework: Updated SFC Accounts Direction**

The SFC's Accounts Direction is published annually in July and provides College's with guidance on disclosure requirements for the financial statements. We will work with management during 2020/21 to ensure the correct application of new requirements.

### **Changes to Auditing Standards**

A revised ISA (UK) 701 applies from 2020/21 and aims to secure enhancements to auditor reporting. Our Annual Audit Report will therefore include:

- ▶ a description of the most significant assessed risks of material misstatement that were identified by the auditor which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the audit team;
- ▶ how each of the above significant risks of material misstatement was addressed including, as a new requirement of the ISA, significant judgements made with respect to each one;
- ▶ specifying the materiality threshold for the financial statements as a whole and, as new requirements, specifying performance materiality and providing an explanation of the significant judgments in determining these amounts; and
- ▶ an overview of the scope of the audit, including an explanation of how it addressed each of the significant assessed risks of material misstatement and how it was influenced by the auditor's application of materiality.

ISA(UK) 540 on accounting estimates was issued in December 2019. Guidance on inherent risk factors relevant to the public sector includes examples to be considered such as:

- ▶ a very high degree of estimation uncertainty caused by the need to project forecasts far into the future, such as liabilities relating to defined benefit pension schemes
- ▶ areas where there may be a lack of available comparators for estimates that are unique to the public sector, such as the valuation of important public assets
- ▶ the existence of possible constructive obligations created by political statements or past practice of carrying out actions that may be expected of public authorities but are not required by law; and
- ▶ political uncertainty and the possibility of future changes in public policy having an impact on the assumptions used to prepare accounting estimates.

### **Use of specialists**

When auditing key judgements, such as the valuation of property, plant and equipment, defined benefit pension scheme assets and liabilities, 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.

### **Internal audit**

We will review the internal audit plan and the results of internal audit's work, including the discussion of audit findings at the Audit Committee and management's response to findings. We will reflect the findings from internal audit reports, together with reports from any other work completed in the year, in our plan for the audit, where they raise issues that could have an impact on the financial statements or our wider responsibilities.

### **Cyber Security**

As outlined by Audit Scotland within their report *Fraud and Irregularity Update 2019/20*, the Covid-19 pandemic has brought significant challenges across the public sector as bodies have sought to continue to deliver services during extremely difficult times. In such emergency situations, existing controls may be compromised and it can be difficult to put in place robust controls for new processes.

The report highlights that there has been an increase in cybercrime, as more public sector staff connect remotely, including the use of various online video conferencing services for meetings which pose security issues. The report also highlights an increase in phishing emails and scams which, if accessed, allow fraudulent access to public sector systems.

We will discuss with management their assessment of whether internal controls at the College are sufficiently robust to mitigate the risk of cyber attacks.



### **Other audit responsibilities**

Under the terms of our appointment, our role and responsibilities include a number of other assurance activities. This includes the provision of information to support Audit Scotland national reports and studies.

#### ***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 he knows or suspects that any person has engaged in money laundering or terrorist financing. As appointed auditor we will consider arrangements for the College to identify and report any instances of money laundering in line with Audit Scotland reporting arrangements.

#### ***Data analytics***

Where possible and appropriate, we will use our bespoke data analysers to enable us to capture whole populations of your financial data, in particular covering journal entries and payroll transactions. These analysers help identify specific exceptions and anomalies within populations of data to focus substantive audit tests more effectively than traditional audit sampling.

We will report the findings of our work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee through the yearend audit reporting process.

## 4. Wider Scope Dimensions: Risk assessment and approach

Covid-19 is a pervasive risk that impacts all wider scope dimensions. This will be an area of audit focus for 2020/21 considering how the College has adapted and the implications for the College's finances.

Together the Accounts Commission and the Auditor General for Scotland agreed the four dimensions set out in the Code which comprise the wider scope audit for public sector bodies in Scotland. These are:

- ▶ Financial management;
- ▶ Financial Sustainability;
- ▶ Governance and Transparency; and
- ▶ Value for money.

### **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.

As part of our risk assessment procedures, we have reviewed each dimension to assess potential areas of risk. We set out our areas of focus, along with any specific significant risks relating to each dimension below.

### **Financial Management**

In our 2019/20 Annual Audit Report, we concluded that the College's financial management arrangements overall were satisfactory. The College has an established budgeting framework which includes presentation of financial updates to the Board and Finance and Resources Committee.

As in 2019/20, we will continue to assess the impact of Covid-19 and the subsequent lockdowns on any core financial management arrangements. We will therefore consider:

- ▶ How internal control arrangements are being adapted and monitored to respond to ongoing remote working arrangements.
- ▶ How the College continued to respond to budgetary pressures, including the loss of non-SFC income.
- ▶ Whether financial reporting to the Board and Finance and Resources Committee continued and whether there was a clear articulation of the financial risks.

## Financial Sustainability

Financial sustainability considers the medium and longer term outlook for the College to determine if planning is effective to support service delivery. We focus on the arrangements to develop viable and sustainable financial plans.

In 2019/20, the College prepared a three-year financial forecast for the period 2020 to 2023 and submitted these to the SFC in the form of the template Financial Forecast Return ('FFR'). The forecast is based on assumptions provided by the SFC in addition to College specific assumptions for areas such as other income and staff numbers, as included within the College's Budget 2020/21 and Financial Plan 2021/22 to 2022/23.

### Medium term financial planning

The full impact of the global pandemic on the College's education and financial plans has continued to evolve throughout 2020/21. In the short term, there is the impact of government funding, including furlough income, and direct financial support from the Scottish Funding Council. The College has also managed the move to blended learning well, with relatively few deferrals to 2021/22. As a result, the acute financial pressures facing the College in 2020/21 have eased.

The College is due to prepare an updated financial forecast in June 2021. Our expectation is that this will continue reflect significant financial pressures in the medium to long term.

Our work for the year will consider:

- ▶ Has the College revised medium term financial plans to take account of the materialising risks in relation to Covid-19 and has appropriate scenario planning taken place?
- ▶ Where gaps in financial plans are identified, the approach adopted by the College to engage with the Scottish Funding Council and other stakeholders to address these gaps.

## Governance and Transparency

We will continue to consider how governance arrangements were adapted during the Covid-19 pandemic to ensure good governance arrangements remained in place.

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.

In our 2019/20 Annual Audit Report we concluded that the College had in place the key requirements for good governance, and concluded that these key features of good governance remained in place and were operating effectively throughout the Covid-19 lockdown. We concluded that the Annual Governance Statement materially complied with the SFC's 2019/20 Accounts Direction.

Our work for the year will consider:

- ▶ How the College ensured the quality of arrangements to support good governance during the Covid-19 pandemic, including ensuring that there is sufficient transparency around governance and decision making arrangements?
- ▶ Is the Annual Governance Statement within the financial statements complete and does it reflect key matters impacted by Covid-19, such as delays in the completion of internal audit work and non-compliance with the code of good governance where actions were not able to be implemented?
- ▶ Progress against prior year audit recommendations from both internal and external audit, including the College's arrangements for ensuring these are monitored and reported on a routine basis.
- ▶ Internal audit arrangements during 2020/21, including whether the internal audit programme was able to be completed.

In line with auditing standards, as part of our consideration of the College's governance arrangements, 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.

## Value for money

In our 2019/20 Annual Audit Report we concluded that the College's arrangements for ensuring value for money were overall appropriate. A revised strategic plan for the period 2017 - 2022 was introduced from the start of the 2017/18 academic year and performance indicators developed to measure delivery and form part of the Colleges operational planning and staff performance reviews on an annual basis.

Our work for the year will consider whether:

- ▶ The College used resources effectively to help support students and other stakeholders during the Covid-19 pandemic and evaluates how lessons learned during the pandemic could be used to support changes to service delivery.
- ▶ The College has arrangements to ensure value for money through the use of public funds, including a robust procurement framework that is used by all employees and is subject to regular scrutiny, and a robust governance process for the approval of exit arrangements.



# Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Audit Committee

D - Timing and deliverables of the audit

E - Audit fees

F - Additional audit information

# Appendix A: Code of Audit Practice Responsibilities

## Audited Body's Responsibilities

### 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.

# Appendix 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 communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard</li> </ul>	<ul style="list-style-type: none"> <li>▶ 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;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ 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;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues</li> </ul>

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 also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

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

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal 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.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Group. Examples include where we have an investment in your company; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's Ethical Standard and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC Ethical Standard, and if necessary agree additional safeguards or not accept the non-audit engagement. At the time of writing, the current ratio of non-audit fees to audit fees is approximately 0% (Appendix E), and will continue to be monitored through the audit engagement. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you.

There are no other self interest threats at the date of this report.

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Group. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

## New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

### Summary of key changes

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal 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.

- ▶ Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates;
- ▶ A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries;
- ▶ A narrow list of permitted services where closely related to the audit and/or required by law or regulation;
- ▶ Absolute prohibition on the following relationships applicable to UK PIE and its affiliates, including material significant investees/investors:
  - ▶ Tax advocacy services
  - ▶ Remuneration advisory services
  - ▶ Internal audit services
  - ▶ Secondment/loan staff arrangements
- ▶ An absolute prohibition on contingent fees;
- ▶ Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential;
- ▶ Permitted services required by law or regulation will not be subject to the 70% fee cap;
- ▶ Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms;
- ▶ A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards;
- ▶ A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

### Next steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019 which has been effective from 1 August 2020.

At the time of writing this report (May 2021) we do not currently provide any non-audit services which would be prohibited under the new standard.

# Appendix C: Required Communications

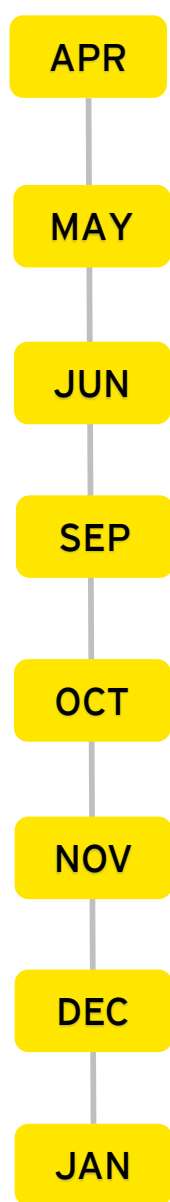
Required communication	Our reporting to you
<p><b>Terms of engagement / Our responsibilities</b></p> <p>Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice</p>
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p>	<p>Annual Audit Plan</p>
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	<p>Annual Audit Plan</p> <p>Annual Audit Report</p>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>Annual Audit Report</p>
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	<p>Annual Audit Report</p>
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ul style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements</li> </ul> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility</li> </ul>	<p>Annual Audit Report</p>

Required communication	Our reporting to you
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Annual Audit Report or as occurring if material.
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ 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</li> </ul>	Annual Audit Report or as occurring if material.
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Annual Audit Plan Annual Audit Report
<p><b>Internal controls</b></p> <p>Significant deficiencies in internal controls identified during the audit</p>	Annual Audit Report
<p><b>Representations</b></p> <p>We will request written representations from management and/or those charged with governance.</p>	Annual Audit Report
<p><b>Subsequent events</b></p> <p>Where appropriate, asking the Audit Committee whether any subsequent events have occurred that might affect the financial statements.</p>	Annual Audit Report
<p><b>Material inconsistencies and misstatements</b></p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	Annual Audit Report
<p><b>Fee Reporting</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Annual Audit Plan Annual Audit Report



# Appendix D: Timing and deliverables of the audit

We deliver our audit in accordance with guidance from Audit Scotland. We would note that we continue to operate in a Covid environment and therefore continue to experience delays in audit processes. The delivery of deadlines will be reviewed through the year as circumstances change, however the FRC has made clear that any deadlines are secondary to the primacy of audit quality and ensuring completeness of work regardless of the environment in which audit takes place. We will work with management and the committee secretariat to agree a timetable for the completion of the audit that ensures a smooth governance process.



Audit Activity	Deliverable	Timing
<ul style="list-style-type: none"> <li>Audit planning and setting scope and strategy for the 2020/21 audit</li> </ul>	Annual Audit Plan	May 2021
<ul style="list-style-type: none"> <li>Walkthrough Visit</li> </ul>	Completion of internal documentation	April-May 2021
<ul style="list-style-type: none"> <li>Review of current issues impacting the College</li> <li>Review of reported frauds</li> </ul>	Quarterly current issue return submission Quarterly fraud return submission	Quarterly Quarterly
<ul style="list-style-type: none"> <li>Year-end substantive audit fieldwork on unaudited financial statements</li> </ul>	Audited Financial Statements	TBC
<ul style="list-style-type: none"> <li>Conclude on results of audit procedures</li> </ul>	Issue Annual Audit Report	TBC
<ul style="list-style-type: none"> <li>Issue opinion on the College's financial statements</li> </ul>	Submit Audit Scotland minimum dataset request	TBC

# Appendix E: Audit 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](http://www.audit-scotland.gov.uk/uploads/docs/um/audit_fee_approach.pdf)).

Audit Fees	2020/21	2019/20
<b>Component of fee:</b>		
Auditor remuneration - expected fee	£22,250	£21,600
Additional audit procedures (see below)	£2,000	£6,000
Audit Scotland fixed charges:		
Pooled costs	£1,440	£1,230
Contribution to Audit Scotland costs	£940	£1,180
<b>Total fee</b>	<b>£26,630</b>	<b>£30,010</b>

The expected fee for each body, which for 2020/21 has been set centrally by Audit Scotland, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and supporting schedules, and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year and an unqualified audit opinion resulting from the audit.

As the College's situation departs from any of these circumstances throughout the audit, it is expected that additional costs will be incurred through the course of the audit which will be subject to recovery in line with the agreed process and rates set out by Audit Scotland. Under this process, fees can be agreed between the auditor and audited body by varying the auditor remuneration by up to 20% above the level set, or more with the approval of Audit Scotland. As such we have included in the fee estimate for the year our current estimate of the costs related to additional work which can be reasonably estimated at this stage of our planning. The fee variation of £2,000 reflects our additional work which will be required around going concern under the new ISA 570 standard as outlined on page 11.

We will continue to consider the impact of changes to our risk considerations for the College, such as the impact of Covid-19 and any changes to requirements around the auditing of pensions, on the audit throughout 2020/21. Should any additional audit requirements arise we will raise these with management through the course of the audit and agree variations as appropriate, and report the final position to the Audit Committee with our annual audit report. All fee variations will depend on the progress made by management in providing robust impact assessments and supporting schedules in line with the underlying accounting requirements outlined by the Scottish Funding Council and Audit Scotland guidance. Where further additional work is required, fee variations will be agreed with management and reported to the Audit Committee in our 2020/21 Annual Audit Report.

# Appendix F: Additional audit information

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

## Our responsibilities required by auditing standards

- ▶ Identify and assess 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.
- ▶ Obtain 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.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of the going concern basis of accounting.
- ▶ Evaluate 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.
- ▶ Read other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

## Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, 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.

Materiality determines the locations at which we conduct audit procedures and the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

## Audit Quality Framework / Annual Audit Quality Report

Audit Scotland are responsible for applying the Audit Quality Framework across all audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team responsible are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support reporting on audit quality by providing additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: [Quality of public audit in Scotland annual report 2019/20 | Audit Scotland \(audit-scotland.gov.uk\)](#).

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2020: [EY UK Transparency Report 2020 | EY UK](#)

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