



Ayrshire College

**External Audit Annual Plan
Year ended 31 July 2024**

June 2024



Table of Contents

Introduction	3
Audit scope and general approach	4
Financial statements - significant audit risks	11
The wider scope of public audit	18
Audit team and timetable	21
Audit Fee	23
Audit independence and objectivity	24
Appendices	25

Introduction

Purpose

This audit plan highlights the key elements of our proposed audit strategy and provides an overview of the planned scope and timing of the statutory external audit of Ayrshire College for the year ended 31 July 2024 for those charged with governance.

Our audit work will cover:

- the financial statements within the 2023/24 annual report and accounts;
- the wider scope of public audit; and
- any other work requested by Audit Scotland.

Adding Value through the Audit

All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the College through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the College promote improved standards of governance, better management and decision making and more effective use of resources.

Feedback

If there are any elements of this audit plan to which you do not agree or you would like to discuss, please let us know as soon as possible.

Any comments you may have on the service we provide, the quality of our work, and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

This plan has been prepared for the sole use of those charged with governance and management and should not be relied upon by third parties. No responsibility is assumed by Azets Audits Services to third parties.

Openness and transparency

This report will be published on Audit Scotland's website <http://www.audit-scotland.gov.uk/>

Audit scope and general approach

Responsibilities of the auditor and the College

The [Code of Audit Practice](#) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and it is a condition of our appointment that we follow it.

Auditor responsibilities are derived from statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, the Code of Audit Practice and guidance from Audit Scotland.

The College has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing a set of annual report and accounts that are in accordance with proper accounting practices. The College is also responsible for complying with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

[Appendix 2](#) provides further details of our respective responsibilities.

Risk-based audit approach

We follow a risk-based approach to the audit that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:

Discussions with senior officers	Our understanding of the college sector, its key priorities and risks	Attending & observing the Audit & Risk Committee
Guidance from Audit Scotland	Discussions with Audit Scotland and public sector auditors	Discussions with internal audit and review of plans and reports
Review of the College's corporate strategies and plans	Review of the College's strategic risk register	Consideration of the work of other inspection bodies

Planning is a continuous process and our planning will be updated during the course of our audit to take account of developments as they arise.

Communication with those charged with governance

Auditing standards require us to make certain communications throughout the audit to those charged with governance. These communications will be through the Audit & Risk Committee.

Partnership working

We coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Audit Scotland

Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps identify common priorities and risks, treat issues consistently across the sector, and improve audit quality and efficiency. We share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

Audit Scotland undertakes national performance audits on issues affecting the public sector. We may review the College's arrangements for taking action on any issues reported in the national performance reports which have a local impact. We also consider the extent to which the College uses the national performance reports as a means to help improve performance at the local level.

During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

Internal Audit

As part of our audit, we consider the scope and nature of internal audit work and look to minimise duplication of effort, to ensure the total audit resource to the College is used as efficiently and effectively as possible.

Delivering the audit

Hybrid audit approach

We adopt a hybrid approach to our audit which combines on-site visits (as required) with remote working; learning from the better practices developed during the pandemic.

All of our people have the equipment, technology and systems to allow them to work remotely or on-site, including secure access to all necessary data and information.

All of our staff are fully contactable by email, phone call and video-conferencing.

Meetings can be held over Microsoft Teams or by telephone.

We employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

Secure sharing of information

We use a cloud-based file sharing service that enables users to easily and securely exchange documents and provides a single repository for audit evidence.

Regular contact

During the 'fieldwork' phases of our audit, we will arrange regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

Signing annual accounts

Audit Scotland recommends the electronic signing of annual accounts and uses a system called DocuSign.

Electronic signatures simplify the process of signing the accounts and are acceptable for laying in Parliament. Accounts can be signed using any device from any location. There is no longer a need for duplicate copies to be signed, thus reducing the risk of missing a signature and all signatories have immediate access to a high-quality PDF version of the accounts.

Approach to audit of the financial statements

Our objective when performing an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an independent auditor's report that includes our auditor's opinion.

As part of our risk-based audit approach, we will:

- perform risk assessment procedures including updating our understanding of the College, including its environment, the financial reporting framework and its system of internal control;
- review the design and implementation of key internal controls;
- identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances and disclosures;

- design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

Materiality

“Reasonable assurance”, referred to above, is a high level of assurance, but is not a guarantee that an audit will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. We include an explanation in the auditor’s report of the extent to which the audit was capable of detecting irregularities, including fraud, and respective responsibilities for prevention and detection of fraud.

We apply the concept of materiality in planning and performing the audit, and in evaluating the effect of misstatements within the financial statements identified during the audit.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both. The basis for our assessment of materiality for the year is set out in [Appendix 1](#).

Any identified errors greater than £53,700 will be recorded and discussed with you and, if not adjusted, confirmed as immaterial as part of your letter of representation to us.

Accounting systems and internal controls

We will follow a substantive testing approach to gain audit assurance rather than relying on tests of controls. As part of our work, we consider certain internal controls relevant to the preparation of the annual accounts such that we are able to design appropriate audit procedures. However, this work will not cover all internal controls and is not designed for the purpose of expressing an opinion on the effectiveness of internal controls. If we identify significant deficiencies in controls, we will report these to you in writing.

Going Concern

In most public sector entities (including colleges), the financial reporting framework envisages that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For many public sector entities, the financial sustainability of the entity is more likely to be of significant public interest than the application of the going concern basis. Our wider scope audit work considers the financial sustainability of the College.

Prevention and detection of fraud or error

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control and;
- are over £5,000.

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

National Fraud Initiative

The National Fraud Initiative (NFI) in Scotland is a biennial counter fraud exercise led by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole. The most recent NFI exercise commenced in 2022 and most matches should have been investigated by 30 September 2023. As part of our 2023/24 audit, we will monitor the College's participation and progress in the NFI.

Anti-money laundering

We require the College to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

Reporting our findings

At the conclusion of the audit we will issue:

- an independent auditor's report setting out our formal audit opinions within the annual report and accounts; and
- an annual audit report describing our audit findings, conclusions on key audit risks, judgements on the pace and depth of improvement on the wider scope areas, and any recommendations.

Definitions

We will use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope areas. The text provides a guide to the key criteria we use in the assessment, although not all of the criteria may exist in every case.



Financial statements - significant audit risks

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- are required to be treated as significant risks due to requirements of ISAs (UK), for example in relation to management override of internal controls.

Significant risks at the financial statement level

The table below summarises significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Management override of controls	Audit approach
<p>Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals. • Analysing the journals listing and determining the criteria for selecting high risk and/or unusual journals. • Testing high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting documentation for appropriateness, corroboration and to ensure approval has been

Management override of controls	Audit approach
<p>Specific areas of potential risk include manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business.</p> <p>Risk of material misstatement: Very High</p>	<p>undertaken in line with the College's journals policy.</p> <ul style="list-style-type: none"> • Gaining an understanding of the key accounting estimates and critical judgements made by management. We will challenge assumptions and consider for reasonableness and indicators of bias which could result in material misstatement due to fraud. • Evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Fraud in revenue recognition	Audit approach
<p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed risk in ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements).</p> <p>The presumption is that the College could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end.</p> <p>In respect of the College's income for Scottish Funding Council (SFC) grant funding, however, we do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate revenue of this nature. The risk of fraud in relation to revenue recognition is however present in all other income streams.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Revenue (occurrence): High 	<p>We will perform the below procedures based on their value within the financial statements:</p> <ul style="list-style-type: none"> • Documenting our understanding of the College's systems for income to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements. • Evaluating the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems. • Obtaining evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Substantively testing material income streams using analytical procedures and sample testing of transactions recognised for the year.

Fraud in expenditure recognition	Audit approach
<p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of expenditure around the year end leading to a material misstatement in the reported financial position.</p> <p>In respect of the College's expenditure for payroll, however, we do not consider the expenditure recognition risk to be significant due to a lack of incentive and opportunity to manipulate expenditure of this nature. The risk of fraud in relation to expenditure recognition is however present in all other expenditure streams.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Expenditure (completeness): High • Accruals (existence and completeness): High 	<p>We will perform the below procedures based on their value within the financial statements:</p> <ul style="list-style-type: none"> • Documenting our understanding of the College's systems for expenditure to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements. • Evaluating the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems. • Obtaining evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Substantively testing material expenditure streams using analytical procedures and sample testing of transactions recognised for the year. • Reviewing accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Valuation of land and buildings (key accounting estimate)	Audit approach
<p>Ayrshire College held land and buildings with a net book value of £116.3 million at 31 July 2023, with external valuations performed on a five-year basis. The College's Ayr, Kilwinning and Kilmarnock Campus properties were valued at 31 July 2023 by Gerald Eve (external valuer). This year, the College is planning to perform a desktop valuation exercise to ensure that the value of the land and buildings included in the accounts does not differ materially from its fair value.</p> <p>There is a significant degree of subjectivity in the measurement and valuation of land and buildings. This subjectivity and the material nature of the College's asset base represents an increased risk of misstatement in the financial statements.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Land & Buildings (valuation): High 	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Considering the basis on which the valuation is carried out and challenging the key assumptions applied. • Evaluating management processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts and the scope of their work. • Evaluating the competence, capabilities and objectivity of the valuation expert. • Testing the information used by the valuer/management to ensure it is complete and consistent with our understanding. • If there have been any specific changes to the assets in the year, the College should ensure these have been communicated to the valuer. • Ensuring revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct.

Pension net asset / liability (key accounting estimate)	Audit approach
<p>An actuarial estimate of the pension fund asset/liability is calculated on an annual basis and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities.</p> <p>A significant level of estimation is required in order to determine the valuation of pension assets and liabilities. Small changes in the key assumptions (including discount rates, inflation, and mortality rates) can have a material impact on the pension asset/liability.</p> <p>There is a risk that the assumptions used are not appropriate.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Pension net asset or liability (valuation): High 	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Reviewing the controls in place to ensure that the data used by the actuary is consistent with the information we receive from the College. • Reviewing the reasonableness of the assumptions used in the calculation against other pension fund actuaries and other observable data. • Agreeing the disclosures in the financial statements to information provided by the actuary. • Examining accounting for the pension movements the financial statements. • Considering the competence, capability, and objectiveness of the management expert in line with ISA (UK) 500 Audit Evidence.

Valuation of PFI provision (key accounting estimate)	Audit approach
<p>The College's PFI contract for the Kilwinning Campus is due to expire in June 2025.</p> <p>The Board intends to purchase the facility at the end of the PFI contract from its provider - KE Projects. The initial associated cost has been included within the College's 2022/23 financial statements as a provision of £1.4 million. However, this amount is subject to further review of the PFI contract and negotiations between the parties and is likely to increase further.</p> <p>A significant level of estimation is required in order to determine the valuation of provision. This is one of the first PFI assets transferring back to the public sector in Scotland and consideration of the legal and accounting requirements are likely to be complex.</p> <p>There is a risk that the assumptions used in valuing the provision are not appropriate.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Provisions (valuation): High 	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Reviewing the controls in place to ensure that the provision valuation is consistent with the relevant documentation and agreements made by the College and PFI provider. • Reviewing the reasonableness of the assumptions used in the calculation of the value of the provision. • Examining the accounting, classification and disclosure of the provision in the financial statements.

The wider scope of public audit

Introduction

The Code of Audit Practice frames a significant part of our responsibilities in terms of four wider scope audit areas:

- Financial sustainability
- Financial management
- Vision, leadership and governance
- Use of resources to improve outcomes.

Our audit approach to the wider scope audit areas

Appointed auditors are required to consider the wider scope areas when:

- identifying significant audit risks at the planning stage of the audit;
- reaching conclusions on those risks;
- making recommendations for improvement; and
- where appropriate, setting out conclusions on the audited body's performance.

When reporting on such arrangements, the Code of Practice requires us to structure our commentary under the four areas identified above. [Appendix 2](#) provides further detail on the definition, scope and audit considerations under each wider scope area.

Our planned audit work against these four areas is risk based and proportionate. Our initial assessment builds upon our understanding of the College's key priorities and risks along with discussions with management and review of board and committee minutes and key strategy documents.

We have identified one significant risk in relation to financial sustainability as set out in the table below. At this stage, we have not identified any significant risks in relation to the other wider scope areas. Audit planning is a continuous process and we will report all identified significant risks, as they relate to the four wider scope areas, in our annual audit report.

Financial sustainability

The College continues to face significant financial challenges, operating within tight financial parameters, and activity continues to plan the measures required to ensure the College is in a long-term sustainable position.

Ayrshire College presented the Financial Strategy to the Board of Management in June 2023. The College estimates adjusted operating deficit totalling £3.4 million for the period between 2023-26. This position is based on a 5% pay award assumption in 2023/24 and 3.5% after this, non-pay cost increase of 2% per annum. It also includes an expectation of no other sources of income and no change to the Scottish Government or SFC funding model. The medium-term financial plan is currently being updated by the College with an aim of presenting to the Board in October 2024 for an approval.

The greatest risks to the College's sustainability are those around levels of funding from SFC, particularly with the removal of the one-off elements funded and the projected "flat cash" position for 2023/24 and beyond.

The College recognises that it has a structural deficit with significant efficiencies requiring to be realised in 2023/24 and in every subsequent year thereafter.

Staff costs continues to be a significant pressure area for the College and a key aspect of the College's ambitious transition plan. With the uncertainty around the public sector pay settlements, any increase in staff costs will have a material impact on the finances of the College. While the College will also have savings from the reduced pension contributions over the next two financial years, after that period these are going to increase to 17.5%, so the nature of these savings will be short term.

The continuing and uncertain impact on the College's finances and, ability to deliver savings plans and services in a sustainable manner remains a significant challenge and risk.

Our audit response:

During our audit we will review whether the College has appropriate arrangements in place to manage its future financial position. Our work will include an assessment of progress made in developing financially a sustainable plan that reflects the medium- and longer-term impact of cost pressures and that continues to support the delivery of the College's statutory functions and strategic objectives.

In formulating our audit plan, we identified areas of possible significant risk in relation to financial management, vision, leadership and governance and use of resources to

improve outcomes. Our audit approach will include reviewing and concluding on the following considerations to substantiate whether significant risks exist:

Financial Management

- Whether the College achieves its 2023/24 financial and performance targets.
- Whether the new SFC guidance on how to allocate the funding between revenue and capital has been followed.

Vision, leadership and governance

- Whether the planned establishment of a trading subsidiary is supported by appropriate governance, scrutiny and risk management frameworks.
- Whether appropriate governance arrangements are in place in preparation for the PFI asset return under the College's control and operation.
- Whether the new Board and Committee members have been provided with appropriate training to perform their functions effectively.

Use of resources to improve outcomes

- Whether the College can evidence a clear link between prioritised spending and improvement against outcomes.
- Whether reporting in the Colleges' annual report and accounts give the readers a comprehensive picture of the College's activities.

Audit team and timetable

Audit Team

Our audit team will be as follows:

Role	Name	Email
Engagement Lead	Andy Reid	Andy.Reid@azets.co.uk
Engagement Manager	Adrian Kolodziej	Adrian.Kolodziej@azets.co.uk
Senior	Caitlin Mackenzie	Caitlin.Mackenzie@azets.co.uk

Timetable

Please find below confirmation of our proposed timetable for the audit as previously discussed with management:

Audit work/ output	Date
Audit planning meeting	7 May 2024
Audit & Risk Committee to consider audit plan	4 June 2024
Interim audit	w/c 24 June 2024
Receipt of draft accounts and commencement audit fieldwork	14 October 2024
Audit & Risk Committee to consider accounts and audit report	10 December 2024
Board meeting to approve accounts for signing	19 December 2024
Annual Report to the College and the Auditor General for Scotland	31 December 2024

Our Requirements

The audit process is underpinned by effective project management to co-ordinate and apply our resources efficiently to meet your deadlines. It is essential that the audit team and the Colleges finance team work closely together to achieve the above timetable.

In order for us to be able to complete our work in line with the agreed fee and timetable, we require the following:

- draft financial statements of a good quality by the deadlines you have agreed with us. These should be complete including all notes, the performance report and the accountability report;
- good quality working papers at the same time as the draft financial statements. These will be discussed with you in advance to ensure clarity over our expectations;
- ensuring staff are available and on site (as agreed) during the period of the audit;
- prompt and adequate responses to audit queries.

Audit Fee

The quality of audit work is an essential requirement in successfully delivering a fully compliant ISA and Code of Audit Practice audit. Audit Scotland sets an expected audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate unaudited accounts and meets the agreed timetable for audit.

The expected fee is reviewed by Audit Scotland each year, based on Audit Scotland's overall budget proposals. The budget proposal and fee levels (for the 2023/24 audits) have been developed in the context of a challenging economic environment, increased expectations on the audit profession and the ongoing process of recovery following the Covid-19 pandemic.

The 2023/24 expected audit fee is based on applying a 6% increase to the 2022/23 expected audit fee. This increase is applied on a sector basis and reflects the conditions of the public sector market.

As auditors we negotiate a fee with the College during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

For 2023/24, we propose setting the audit fee above the expected fee level.

Fee element	2023/24	2022/23
Auditor remuneration (expected fee level)	54,130	51,070
Pooled costs	(5,770)	(7,490)
Audit support costs	-	1,320
Sectoral cap adjustment	5,670	6,070
Total fee	54,030	50,970

We will take account of the risk exposure of the College and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

Audit independence and objectivity

Auditor Independence

We are required to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we comply with FRC's Ethical Standard. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets and the College, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

In particular, FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. We have detailed in the table below the non-audit services provided to the College, the threats to our independence and the safeguards we have put in place to mitigate those threats.

Non-audit service	Fee	Type of threat	Safeguard
VAT advisory services	£5,100	Self-review Management decisions	VAT advisory services are provided by a separate team.

Appendices



Appendix 1: Materiality	26
Appendix 2: Responsibilities of the Auditor and the College	28

.....

Appendix 1: Materiality

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to those charged with governance and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Under ISA (UK) 260 we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA (UK) 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the College and the needs of the users.

When planning, we make judgements about the size of misstatements which we consider to be material, and which provide a basis for determining the nature and extent of our audit procedures. Materiality is revised as our audit progresses, should we become aware of any information that would have caused us to determine a different amount had we known about it during our planning.

Our assessment, at the planning stage, of materiality for the year ended 31 July 2024 was calculated as follows.

	£
Overall materiality for the financial statements	1,075,000
Performance materiality (75% of materiality)	806,000
Trivial threshold	53,700
Materiality	Our initial assessment is based on approximately 2% of gross expenditure as disclosed in the 2022/23 audited annual report and accounts. We consider this to be the principal consideration for the users of the financial statements when assessing financial performance of the College.
Performance materiality	Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater

	<p>level of testing on the areas deemed to be at significant risk of material misstatement.</p> <p>Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.</p>
<p>Trivial misstatements</p>	<p>Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p> <p>Individual errors above this threshold are communicated to those charged with governance.</p>

The Remuneration & Staff Report and Related Parties disclosures are material by nature.

In performing our audit, we will consider any errors which cause result in a movement between the relevant bandings on the disclosure table to be material.

For Related Party transactions, in line with the standards we will consider the significance of the transaction with regard to both Ayrshire College and the Counter party, the smaller of which will drive materiality considerations on a transaction by transaction basis.

Appendix 2: Responsibilities of the Auditor and the College

The Auditor General and Audit Scotland

The Auditor General for Scotland is a Crown appointment and independent of the Scottish Government and Parliament. The Auditor General is responsible for appointing independent auditors to audit the accounts of the Scottish Government and most Scottish public bodies, including Colleges, and reporting on their financial health and performance.

Audit Scotland is an independent statutory body that co-ordinates and supports the delivery of high-quality public sector audit in Scotland. Audit Scotland oversees the appointment and performance of auditors, provides technical support, delivers performance audit and Best Value work programmes and undertakes financial audits of public bodies.

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the [2021 Code](#)) describes the high-level, principles-based purpose and scope of public audit in Scotland.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Auditor General and it is a condition of our appointment that we follow it.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the College and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management



Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

Financial sustainability



Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Vision, leadership and governance

Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.



Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.



Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#)

The most recent audit quality report can be found at [Quality of public audit in Scotland: Annual report 2022/23 | Audit Scotland \(audit-scotland.gov.uk\)](#)

College responsibilities

The College has 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 enables it to successfully deliver its objectives. The features of proper financial stewardship include the following:

Area	College responsibilities
Corporate governance	<p>The College 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. Those charged with governance should be involved in monitoring these arrangements.</p>
Financial statements and related reports	<p>The College has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of the financial position and its 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 the balances and transactions in its financial statements and related 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; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements. <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p>

Area	College responsibilities
	<p>The College is 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 its objectives and safeguard and secure value for money from the public funds at its disposal. The College is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
Standards of conduct for prevention and detection of fraud and error	<p>The College is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
Financial position	<p>The College is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • such financial monitoring and reporting arrangements as may be specified; • compliance with statutory financial requirements and achievement of financial targets; • balances and reserves, including strategies about levels and their future use; • plans to deal with uncertainty in the medium and long term; and • the impact of planned future policies and foreseeable developments on the financial position.



© Azets 2024. All rights reserved. Azets refers to Azets Audit Services Limited. Registered in England & Wales Registered No. 09652677. VAT Registration No. 219 0608 22. Registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

We are an accounting, tax, audit, advisory and business services group that delivers a personal experience both digitally and at your door.

Accounting | Tax | Audit | Advisory | Technology
