North East Scotland College

Annual Audit Plan 2023/24

Prepared for North East Scotland College

May 2024

Contents

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 audit. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Audit appointment

2. We have been appointed by the Auditor General for Scotland as external auditors of North East Scotland College (the college) for the five-year period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of our five-year audit appointment. Details of the audit team are included at Appendix 1.

Respective responsibilities of the auditor and North East Scotland College

3. The Code of Audit Practice sets out in detail the respective responsibilities of the auditor and the college. Key responsibilities are summarised below.

Auditor responsibilities

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

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at the college. In doing this, we aim to support improvement and accountability.

College responsibilities

6. The college is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

7. The college has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

Adding Value

8. We aim to add value by tailoring audit work to the circumstances of the college and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Audit and Risk Committee; and by recommending and encouraging good practice. In so doing, we will help the college promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual report and accounts

Introduction

9. The annual report and accounts are an essential part of demonstrating the college's stewardship of resources and its performance in the use of those resources.

10. As appointed auditors, we are required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report. This is done in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

11. We focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

12. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

13. We assess materiality at different levels as described in Exhibit 1. Based on our assessment of the group (refer to paragraph 29), we did not consider it necessary to set separate materiality values for the college's group accounts.

Exhibit 1
2023/24 Materiality levels for the college and its group

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the college's single entity and group operations. For the year ended 31 July 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.	£1,000,000

Materiality	Amount
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£750,000
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold' amount. This is calculated as 5% of planning materiality.	£50,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. Our risk assessment draws on our cumulative knowledge of the college, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, the work of internal audit, attendance at committees and a review of supporting information.

15. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

16. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. Exhibit 2 summarises the nature of the risks, management’s sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2
2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management’s sources of assurance	Planned audit response
1. Risk of material misstatement due to fraud caused by management override of controls As stated in ISA (UK) 240,	Owing to the nature of this risk, assurances from management are not applicable in this instance.	• Assess the design and implementation of controls over journal entry processing, make inquiries of relevant officers about inappropriate or unusual activity relating to the processing of journal entries and other adjustments and consider the need and extent of detailed journal entry testing. • Evaluate significant transactions outside the normal course of business.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.		• Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end and accruals and prepayments to confirm they are accounted for in the correct financial year. • Focused testing of accounting accruals and prepayments.

Source: Audit Scotland

17. As set out in ISA (UK) 240*: The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

18. We have rebutted this risk as most of the college's funding is received from the Scottish Funding Council. This funding is clearly communicated and can be readily agreed to third party confirmations. The college's other income streams comprise of individually high volume, low value transactions, and we have concluded there are limited opportunities and incentives for management to manipulate the recognition of income in the financial statements to a material effect.

19. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United* Kingdom, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

20. We have also rebutted this risk as there are limited opportunities or incentives for management to manipulate the way expenditure is recognised. Having evaluated the college's significant expenditure streams, several, including staff costs and non-cash costs such as depreciation are not considered to be areas of risk. A significant level of other expenditure is verifiable in total terms by third party confirmation or relate to a high volume of individual transactions which are relatively small in scale.

21. Although there is a material residual balance, college payments are well-controlled and are therefore unlikely to result in a material misstatement in the financial statements.

22. To address any residual risk, our audit testing is directed towards significant and unusual transactions including accounting estimates. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

23. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risks, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

24. The areas of specific audit focus are:

- **Estimation in the valuation of land and buildings**: There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions, and changes in these can result in material changes to valuations.

  Our work in this area includes using the work of the valuer as a management expert. We will evaluate the objectivity and appropriateness of the expert’s work, consider whether the valuation frequency is appropriate and assess the adequacy of the valuation related disclosures in the financial statements.

- **The value of the net pension position**: The college’s employees belong to one of two principal pension schemes, the Scottish Teachers’ Superannuation Scheme (STSS), an unfunded scheme, or the Local Government Pension Scheme (LGPS) which is funded. STSS is treated for accounting purposes as a defined contribution scheme because the college is unable to identify its share of the underlying assets and liabilities of the scheme. In respect of the LGPS, the college, in common with many public bodies, moved from a deficit position to a surplus in recent years and this is anticipated to remain the case as at 31 July 2024.

  Significant estimation and judgements are required in the measurement, valuation and disclosures of pensions valuations under IAS 19. These valuations are based on specialist actuarial and management assumptions. We will assess the work of the actuary, including consideration of the appropriateness of the assumptions used. We will assess the college’s approach for recognition of its pension asset in the financial statements subject to any asset ceiling and confirm valuation disclosures are correctly reflected in the accounts.

- **Valuation of the provision for pension liabilities arising from early retirements**: The calculation of the provision uses a discount factor which needs to be from a reliable source and be free from bias. A change in the discount factor could result in a material movement in the value of the provision. There is also a risk of duplicating an element of the liability as the actuary calculates a relevant liability in respect of LGPS members and includes it as part of their IAS19 report.

We will review the calculation of the provision and the reliability and objectivity of discount factor used and confirm whether or not there is duplication in the calculation of the liability.

- **Other sources of grants**: The college receives other grants (c£7.5 million in 2022/23) which may not be correctly recognised in the financial statements. Income recognition is dependent on whether the funder has specified any conditions and the extent to which any such conditions will be met by the college.

  Accounting for grants is therefore inherently complex and can be subjective in relation to the fulfilment of the grant conditions. We will review a sample of other grants for evidence of compliance with any performance conditions and ensure they are correctly accounted for in line with guidance.

Regularity

25. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

26. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Group Consideration

27. As group auditors, we are required under ISA (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

28. Our planned audit approach for the components is informed by our assessment of risk at the component level and our consideration of the size and nature of assets, liabilities, and transaction streams.

29. The college has a group which comprises two subsidiaries. Group income, expenditure, assets, and liabilities are not significantly different from those included in the college's single entity accounts and therefore we did not consider it necessary to set separate materiality values for the group accounts.

30. While the financial audits of the other components are performed by other auditors, we do not plan to place reliance on their work. Our work will be limited to ensuring that the amounts consolidated into the group accounts agree to the component entities' respective financial statements and other direct confirmation of balances. We will also consider the assurances the college obtains for its group accounts including year-end reconciliations and the consolidation process.

Wider Scope and Best Value

Introduction

31. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

32. In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the college. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the college demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

33. We have identified a wider scope risk as set out in Exhibit 3. This exhibit sets out risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3
2023/24 wider scope risk

Description of risk	Management's sources of assurance	Planned audit response
1. Financial sustainability The further education sector as a whole is facing financial challenges. North East Scotland College is forecasting a deficit of approx. £1 million, up by £0.5 million from the original budget approved for the 2023/24 academic year. Uncertainties continue to exist around the potential scale of pay awards, higher non-pay expenditure and reduced flexibility within the funding model. There is a risk that the college will not find sufficient efficiency savings and commercial income to return a break-even position over the three year period to 2024/25. Consequently, the quality and volume of service delivery may reduce.	• Review and approval of financial plans by committee/Regional Board. • Regular financial monitoring and reporting to committee and Regional Board. • Short and medium term financial monitoring by SFC. • Monitoring of opportunities register. • Monitoring the financial performance of group companies.	• Review financial and savings plans. • Discuss current financial situation and forecasts with officers and the various initiatives being explored to fill funding gaps. • Review Regional Board and committee minutes and papers. • Conclude our findings in the Annual Audit Report.

Source: Audit Scotland

34. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits.

Duty of Best Value

35. Ministerial Guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that the college has such arrangements in place.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

36. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with relevant officers to confirm factual accuracy.

37. We will provide:

- an Independent Auditor's Report to the College, the Scottish Parliament, and the Auditor General setting out our opinions on the annual report and accounts
- the College and the Auditor General with an Annual Audit Report containing judgements and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

38. Exhibit 4 outlines the target dates for our audit outputs set by the Auditor General. In determining the target reporting date, due regard is paid to the accounts submission date of 31 December 2024 set by the Scottish Funding Council.

39. We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

Exhibit 4
2023/24 Audit outputs

Audit Output	Target completion date set by the Auditor General	Planned reporting date to Audit and Risk Committee
Annual Audit Plan	30 June 2024	29 May 2024
Independent Auditor's Report	31 December 2024	27 November 2024 (tbc)
Annual Audit Report	31 December 2024	27 November 2024 (tbc)

Source: Audit Scotland

40. All Annual Audit Plans and the outputs detailed in Exhibit 4, and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

41. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at Exhibit 5 that has been discussed with management.

42. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5
Proposed annual report and accounts timetable

Key stage	Provisional Date
Latest submission date for the receipt of the unaudited financial statements with complete working papers package.	30 September 2024
Latest date for final clearance meeting with the Vice Principal Finance and Resources	1 November 2024
Agreement of audited and unsigned financial statements	15 November 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	11 November 2024
Issue of Annual Audit Report to those charged with governance.	20 November 2024 (tbc)
Approval of College's Annual Report and Accounts for signature	27 November 2024 (tbc)

Source: Audit Scotland

Audit fee

43. In determining the audit fee, we have taken account of the risk exposure of the college and the planned management assurances in place. Fee levels are impacted by inflation which has increased the cost of audit delivery. The proposed audit fee for 2023/24 is £63,650 (2022/23 £60,040).

44. In setting the fee for 2023/24, we have assumed that the college has effective governance arrangements and will prepare a comprehensive and accurate annual report and accounts for audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

45. It is the responsibility of the college to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

46. We take internal audit's findings into consideration when assessing the college's governance arrangements and our wider scope responsibilities. Where appropriate, we also assess the impact of internal audit's findings on our financial statements audit work. We intend to use the work of internal audit in respect of student support funds and the credits audit to provide some assurance for our audit procedures on the financial statements.

Independence and objectivity

47. We are independent of North East Scotland College in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

48. Audit Scotland has robust arrangements in place to ensure compliance with the Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

49. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of the college.

Audit Quality

50. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the Audit Scotland website.

51. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

52. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

53. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Appendix 1: Your audit team

54. The audit team involved in the audit of the college have significant experience in public sector audit.

Anne MacDonald amacdonald@audit-scotland.gov.uk	Senior Audit Manager/Engagement Lead
Arlene Deeming adeeming@audit-scotland.gov.uk	Senior Auditor
Deirdre Sim dsim@audit-scotland.gov.uk	Auditor

55. The local audit team is supported by a specialist technical accounting team, who have significant experience of public bodies and work with accounting regulatory bodies.

North East Scotland College

Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:
www.audit-scotland.gov.uk/accessibility

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