

South Lanarkshire College

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for South Lanarkshire College

May 2024

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Introduction

Audit Appointment

1. I, Andrew Kerr, have been appointed by the Auditor General for Scotland as external auditor of South Lanarkshire College for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of my five-year audit appointment.

Summary of planned audit work

2. This document summarises the work plan for our 2023/24 external audit of South Lanarkshire College (the college). The main elements of our work include:

- inspection of the design and implementation of the key controls within the main accounting systems.
- an audit of the Annual Report and Financial Statements, and provision of an independent auditor's report.
- an audit opinion on regularity and other statutory information published within the Annual Report and Financial Statements including the Performance Report, the 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.
- consideration of Best Value arrangements.

Respective responsibilities of the auditor and the college

3. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the college. Key responsibilities are summarised below.

Auditor responsibilities

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

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the Annual Report and Financial Statements. We also review and report on the arrangements within the college to manage its performance, regularity, and use of resources. In doing this, we aim to support improvement and accountability.

The college's responsibilities

6. The college is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.
7. The college is responsible 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.
8. The audit of the financial statements does not relieve management or the Board of Management as those charged with governance, of their responsibilities.

Communication of fraud or suspected fraud

9. In line with ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this plan to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. During our audit, should members of the Committee or Board of Management have any such knowledge or concerns relating to the risk of fraud within the college, we invite them to communicate this to us for our consideration.

Adding value

10. We aim to add value to the college through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help the college promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

Annual Report and Financial Statements audit planning

Introduction

11. The Annual Report and Financial Statements are an essential part of demonstrating the college's stewardship of resources and its performance in the use of those resources.

12. As appointed auditors we are required to perform an audit of the financial statements, consider other information within the Annual Report and Financial Statements, and express a number of audit opinions in an Independent Auditor's Report 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.

13. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements in the Annual Report and Financial Statements.

Materiality

14. Materiality is an expression of the relative significance of a matter in the context of the Annual Report and Financial Statements. 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 determine with reasonable confidence whether the Annual Report and 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

15. The materiality levels for the college are set out in [exhibit 1](#).

Exhibit 1

2023/24 materiality levels for the college

| Materiality | Amount |
|---|----------------|
| Planning materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the Annual report and Financial Statements. It has been set at 2% of gross expenditure based on the latest audited Financial Statements for 2022/23. | £0.400 million |
| Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 60% of planning materiality. | £0.240 million |
| Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. We have ensured this threshold is reasonable to allow appropriate testing of income and expenditure items. | £0.020 million |

Source: Audit Scotland

Significant risks of material misstatement to the Annual Report and Financial Statements

16. Our risk assessment draws on our 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 and internal audit, attendance at committees and a review of supporting information.

17. 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.

18. Based on our risk assessment process, we identified the following significant risks of material misstatement to the Annual Report and Financial Statements. These risks have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over these risks.

Exhibit 2

2023/24 significant risks of material misstatement to the Annual Report and Financial Statements

| Significant risk of material misstatement | Sources of management assurance | Planned audit response |
|--|---|--|
| <p>1. Management override of controls</p> <p>As stated in ISA (UK) 240 (<i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>), management is in a unique position to perpetrate fraud because of their ability to override controls that otherwise appear to be operating effectively.</p> | <ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance | <ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Evaluate significant transactions outside the normal course of business. 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 at the year-end to confirm they are accounted for in the correct financial year. Focussed testing of accounting accruals and prepayments. |
| <p>2. Revaluation of land and buildings</p> <p>The college held land and buildings with a net book value of £49.428 million as at 31 July 2023.</p> <p>In line with the government financial reporting manual (FReM) these assets are revalued on a three-year cycle. A revaluation was undertaken in 2020/21. As such, a full revaluation of these assets is due in 2023/24.</p> | <ul style="list-style-type: none"> Revaluations completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyors. Detailed working papers retained in support of asset reviews. | <ul style="list-style-type: none"> Review the information provided to the valuer to assess for completeness. Evaluate the competence, capabilities, and objectivity of the professional valuer. Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. |

| Significant risk of material misstatement | Sources of management assurance | Planned audit response |
|--|---------------------------------|---|
| <p>Risk: 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.</p> | | <ul style="list-style-type: none"> • Test the reconciliation between the financial ledger and the asset register. • Critically assess the adequacy of the college's disclosures regarding the assumptions in relation to the valuation of other land and buildings. |

Source: Audit Scotland

Other areas of audit focus

19. As part of our assessment of audit risks, we have identified two other areas where we consider there is also risks of material misstatement to the Annual Report and Financial Statements, being the valuation of the pension balance and the implementation of a new payroll system. Based on our assessment of the likelihood and magnitude of these risks, we do not consider these to represent a significant risk. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

20. The other areas of specific audit focus are:

- **Pension balance:** This an area of audit focus due to the material value and significant assumptions used in the calculation of this balance. We will review the work of the actuary, including reviewing the appropriateness of actuarial assumptions and management's assessment of these.
- **New payroll system:** The college is implementing a new payroll system (iTrent) in June 2024. The new system will be used in the production of the 2023/24 financial statements. Changes in key financial systems involve significant levels of testing and data migration which bring with them a level of risk. We will review the college's arrangements for testing the new system, including the data migration. We will assess the design and implementation of controls within the new system to ensure the completeness and accuracy of the data within this.

Consideration of the risks of fraud in the recognition of income and expenditure

21. 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 income. We have considered the risk over income recognition and the risk of fraud over expenditure (in accordance with Practice Note 10 (*Audit of Financial Statements and Regularity of Public Sector Bodies in the UK*)).

22. For these two areas, we have rebutted the presumption that a risk of material misstatement exists. Our assessment is on the basis that:

- there are generally no incentives for staff to commit fraudulent financial reporting.
- a significant portion of the college's income comes from funding from other public sector bodies, principally the Scottish Funding Council. This income can be readily agreed to funding announcements. Additionally, the college's other income streams mainly comprise of high volume, low value items, such as student fees, that are unlikely to result in a material misstatement due to fraud.
- most expenditure is in low-risk areas where individual transactions are well controlled (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale.
- evidence from the college's participation in the National Fraud Initiative does not indicate material risks.
- experience in the sector, including consideration of the limited number of past misstatements reported by the external auditor, does not indicate a significant risk.

23. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

24. 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).

25. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the Annual Report and Financial Statements supplemented by additional testing for any irregular transactions, where necessary. Our audit testing will maintain an oversight of any unusual transactions or accounting entries.

Audit of the Performance Report, Governance Statement and Remuneration and Staff Report

26. In addition to the appointed auditor's opinion of the financial statements, the appointed auditor is required to provide opinions as to whether the Performance Report, Governance Statement and the Remuneration and Staff Report have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the accounts.

27. To inform these opinions we will consider whether the disclosures within each statement comply with the applicable guidance and confirm that relevant information reflects the contents of the financial statements and other supporting documentation.

Wider Scope and Best Value

Introduction

28. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

29. In summary, the four wider scope areas cover the following:

- **Financial management:** means having sound financial control 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. This will include reviewing the college's progress with investigating the matches identified by the National Fraud Initiative exercise.
- **Financial sustainability:** as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit and comment on the 2023/24 financial position and medium-term sustainability of the college in our Annual Audit Report.
- **Vision, leadership, and governance:** we conclude on the arrangements 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:** audited bodies must make best use of their resources to meet stated outcomes and improvement objectives. We will consider how the college demonstrates economy, efficiency, and effectiveness through the use of financial and workforce resources.

Significant wider scope risks

30. We have identified one significant wider scope audit risk in relation to financial management as set out in [exhibit 3](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over this risk. The conclusions from this work will be reported in our 2023/24 Annual Audit Report. Our risk assessment has not identified any significant risks in respect of the other wider scope areas.

Exhibit 3

2023/24 wider scope risk

| Description of risk | Sources of management assurance | Planned audit response |
|--|--|---|
| <p>1. Financial Management - employee pension contributions</p> <p>The college participates in two pension schemes: the Scottish Teachers' Superannuation Scheme (STSS), which is administered by the Scottish Public Pensions Agency and the Strathclyde Pension Fund (SPF) which administered by Glasgow City Council.</p> <p>In 2015 the employee contribution rate moved from "full time equivalent salary" to "actual earnings", which meant that the employee contribution rate would likely be lower for part-time employees.</p> <p>The changes to this calculation were not actioned in the college's payroll. The issue only came to light following a change in personnel within the HR department, with the issues escalated to the then Acting Principal in early 2023.</p> <p>In 2023/24 Internal Audit undertook a review of the pension calculations for a sample of employees and identified a systemic error in the way that pension contribution rates had been applied for part-time staff who are members of the STSS and SPF pension schemes.</p> <p>This has resulted in a higher rate of employee contributions being deducted from the employees, and therefore submitted to the pension agency, and incorrect reporting of additional contributions beyond the published contribution rate.</p> | <ul style="list-style-type: none"> • An independent third-party organisation (Henderson Loggie) has been commissioned to conduct a comprehensive review of all part-time employees during the period identified. • The college has developed a project plan. This will be subject to regular monitoring by the Project Steering Group and project updates will be presented to the Audit and Risk Committee. • Ongoing communication with staff, Trade Unions, Board of Management, pension schemes and HMRC. | <ul style="list-style-type: none"> • Discussions with management and consultants regarding progress with the project plan. • Assess the design and implementation of payroll controls. • Ongoing monitoring of updates to Audit and Risk Committee. • Review of disclosures on this matter in the Annual Report and Financial Statements. Specifically, the college's assessment of its compliance with the Code of Good Governance for Scotland's Colleges in the Governance Statement. • Review of any provision or contingent liability accounted for or disclosed within the Annual Report and Financial Statements. |

| Description of risk | Sources of management assurance | Planned audit response |
|--|---------------------------------|------------------------|
| Risks: | | |
| <ul style="list-style-type: none"> • non-compliance with the Code of Good Governance for Scotland's Colleges 2022. • reputational risk to the college. • potential financial implications for the college including penalties being applied by HMRC from the historical underpayment of PAYE. | | |

Source: Audit Scotland

Duty of Best Value

31. [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 such arrangements are in place within the college.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

32. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs, as detailed in [exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

33. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to management to confirm factual accuracy.

34. We will provide an independent auditor's report to the college, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the Annual Report and Financial Statements. We will provide the college and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

35. [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 December 2024.

Exhibit 4

2023/24 audit outputs

| Audit output | Audit Scotland / statutory deadline | Audit and Risk committee date |
|------------------------------|-------------------------------------|-------------------------------|
| Annual Audit Plan | 30 June 2024 | 9 May 2024 |
| Independent Auditor's Report | 31 December 2024 | 19 November 2024 |
| Annual Audit Report | 31 December 2024 | 19 November 2024 |

Source: Audit Scotland



Audit timetable

36. To support an efficient audit, it is critical that the timetable for producing the Annual Report and Financial Statements for audit is achieved. We have included a proposed timetable for the audit at [exhibit 5](#) that has been discussed and agreed with management.

37. We intend to take a hybrid approach to the 2023/24 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate. Progress will be discussed with management over the course of the audit.

Exhibit 5

Proposed Annual Report and Financial Statements timetable

|  Key stage |  Provisional Date |
|---|--|
| Latest submission date for the receipt of the unaudited Annual Report and Financial Statements with complete working papers package. | 14 October 2024 |
| Latest date for final clearance meeting with the Vice Principal – Finance, Resources & Sustainability, agreement of the audited and unsigned Annual Report and Financial Statements and the proposed Annual Audit Report. | 8 November 2024 |
| Issue of proposed Annual Audit Report, letter of management representation and proposed independent auditor’s report to those charged with governance (Audit and Risk Committee). | 11 November 2024 |
| Presentation of proposed Annual Audit Report to those charged with governance. | 19 November 2024 |
| Approval of the college’s Annual Report and Financial Statements by the Board of Management, independent auditor’s report signed following this approval and the final Annual Audit Report issued. | 26 November 2024 |

Source: Audit Scotland

Audit fee

38. 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 Financial Statements for audit in line with the agreed timetable for the 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. The audit fee for 2023/24 is £25,590 (2022/23: £24,140).

Other matters

Internal audit

39. It is the responsibility of the college to establish adequate internal audit arrangements. The college's internal audit function is provided by Henderson Loggie.

40. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities. Specifically, we will consider their review covering the pension contributions (as noted in [exhibit 3](#)) and their review of corporate governance, which will contribute to our understanding of the wider control environment in place at the college.

Independence and objectivity

41. Auditors appointed by the Auditor General for Scotland must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

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

43. The appointed auditor for the college is Andrew Kerr, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the college.

Audit Quality

44. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value, and can support public bodies to achieve their objectives.

45. Audit Scotland are committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality, and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal

quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

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

South Lanarkshire 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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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk