

West Lothian College

Annual Audit Plan 2023/24



Prepared for West Lothian College

May 2024

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Introduction

Summary of planned audit work

1. I, Brian Battison, have been appointed by the Auditor General for Scotland as external auditor of West Lothian 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.

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

- an audit of the annual report and 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, including the Performance Report, Governance Statement, and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: concluding on the financial sustainability of West Lothian College and a review of the Governance Statement
- consideration of Best Value arrangements
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual report and financial statements and an Annual Audit Report setting out conclusions on the wide scope areas.

Respective responsibilities of the auditor and West Lothian College

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

Auditor responsibilities

4. My responsibilities as appointed auditor 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 wider scope arrangements in place

at West Lothian College. In doing this, we aim to support improvement and accountability.

West Lothian College responsibilities

6. West Lothian 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 financial statements in accordance with applicable requirements.

7. West Lothian 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. My team and I aim to add value by:

- tailoring audit work to the circumstances of West Lothian College and the audit risks identified;
- being constructive and forward looking;
- providing independent conclusions; attending meetings of the Audit Committee; and
- by recommending and encouraging good practice.

9. In so doing, we will help West Lothian College promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual report and financial statements

Introduction

10. The annual report and financial statements are an essential part of demonstrating West Lothian College's stewardship of resources and its performance in the use of those resources.

11. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual report 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.

12. My team and I 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

13. 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. I am required to plan my 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

14. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for West Lothian College are set out in the table below.

Exhibit 1

2023/24 Materiality levels for West Lothian College

Materiality	Amount
<p>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 West Lothian College’s 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.</p>	£457,000
<p>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.</p>	£343,000
<p>Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold’ amount. materiality. We have set this at 5% of planning materiality.</p>	£23,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

16. 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.

17. Based on our risk assessment process, we identified the following significant risks 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
<p>Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • 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. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • 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 to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.
<p>Estimation in the valuation of land and buildings</p> <p>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</p>	<ul style="list-style-type: none"> • Discussions with external professional valuers. • Full valuation report provided by external professional valuer. 	<ul style="list-style-type: none"> • Evaluate the competence, capabilities and objectivity of the professional valuer. • Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the information provided to the external valuer to assess for completeness. • Critically assess the adequacy of West Lothian College's disclosures regarding the assumptions in relation to the valuation of land and buildings.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>result in material changes to valuations.</p> <p>Due to the inherent complexity and subjectivity risks regarding land and building valuations, a significant risk of material misstatement in the 2023/24 valuations has been identified.</p>		

Source: Audit Scotland

18. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, 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. We have rebutted this risk as the majority of funding is received from the Scottish Funding Council. This funding is clearly communicated and can be readily agreed to third party confirmations. In addition, West Lothian College's other income streams comprise high volume and low value transactions, and we have concluded there is limited opportunity or incentive to manipulate the recognition of income in the financial statements.

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. We have rebutted this risk as the main expenditure streams of West Lothian College can be readily forecast based on a predictable pattern of spend and mainly comprise a high volume of relatively low value items. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

20. 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

21. As part of our assessment of audit risks, we have identified an area where we consider there is a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent a significant risk. We will keep this area under review as our audit progresses. The area of specific audit focus is as follows:

- **Estimation in the valuation of pension asset/liability:** The present value of the retirement (pension) obligations depends on several factors that are determined on an actuarial basis using a number of assumptions. Any changes to supporting assumptions caused by errors in the information provided to the actuary, or through late information, could result in a material misstatement to the financial statements.

We will assess the scope, independence and competence of the professionals engaged in providing estimates for pensions and review appropriateness of actuarial assumptions. We will establish West Lothian College's arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by West Lothian College.

Wider Scope and Best Value

Introduction

22. 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.

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

- **Financial management** – this means having sound budgetary processes, 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** – relates to whether the body is planning effectively to continue to deliver services, including consideration of financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – this relates to the clarity of plans in place to deliver the vision, strategy, and priorities adopted by West Lothian College, including the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – relates to how West Lothian College demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

24. The Code of Audit Practice includes provision for a tailored audit approach where an audited body is less complex owing to its size and its limited financial activity. The provision permits the wider scope audit work to be focussed on a review of the annual governance statement, associated with the related audit opinion expressed in the independent auditor's report; and concluding on the financial sustainability of the body and the services that it delivers over the medium to longer term.

25. We have considered both quantitative and qualitative factors in our assessment of audit risk at West Lothian College. We have gained an understanding of the entity through our planning work, the nature of its business and its current circumstances. In view of the size and the lack of complexity of its financial transactions, we plan to apply the less complex provision from the Code of Audit Practice to the 2023/24 audit of West Lothian College.

Wider scope risks

26. Based on the reduced wider scope audit, we have not identified any significant risks in the areas set out above.

27. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, the Auditor General for Scotland may ask us 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, but we will remain cognisant of challenges identified in prior years such as climate change.

Duty of Best Value

28. [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. Further, the Scottish Funding Council's financial memorandum requires the College to have a strategy for reviewing systematically management's arrangements for securing value for money. We will be carrying out a high-level review to confirm that such arrangements are in place within West Lothian College.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

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

30. We will provide:

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

31. [Exhibit 3](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. In determining the target reporting date, due regard is paid to the accounts submission date of 31 December 2024. We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

Exhibit 3 2023/24 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	30 June 2024	6 June 2024
Independent Auditor's Report	31 December 2024	26 November 2024
Annual Audit Report	31 December 2024	26 November 2024

Source: Audit Scotland

32. All Annual Audit Plans and the outputs detailed in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.



Timetable

33. 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 4](#) that has been discussed with management.

34. 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 4

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.	By 14 October 2024
Latest date for final clearance meeting with the Director of Finance (or equivalent)	13 November 2024
Agreement of audited and unsigned annual report and financial statements	15 November 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	15 November 2024
Issue of Annual Audit Report to those charged with governance.	19 November 2024
Signed Independent Auditor's Report	3 December 2024

Source: Audit Scotland

Audit fee

35. In determining the audit fee, we have taken account of the risk exposure of West Lothian College and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £26,200 (2022/23: £24,710).

36. In setting the fee for 2023/24, we have assumed that West Lothian College has effective governance arrangements and will prepare a comprehensive and accurate set of 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.

Other matters

Internal audit

37. It is the responsibility of West Lothian College to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

38. 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.

Independence and objectivity

39. I am independent of West Lothian 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.

40. Audit Scotland has robust arrangements in place to ensure compliance with 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.

41. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of West Lothian College.

Audit Quality

42. 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](#).

43. 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.

44. 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.

45. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

46. 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.

West Lothian College

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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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