

# New College Lanarkshire

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for New College Lanarkshire  
July 2023

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of New College Lanarkshire (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 accounts, and provision of an Independent Auditor's Report.
- an audit opinion on regularity and other statutory information published within the annual report and accounts 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.

## Audit Appointment

2. We are pleased to be appointed as the external auditor of the college for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

## Adding value

5. 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.

## Respective responsibilities of the auditor and Audited Body

6. 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

7. 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.

8. 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 to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

### The college's responsibilities

9. The college is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. 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 enable them to deliver their objectives.

11. 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

12. 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.

# Financial statements audit planning

## Introduction

**13.** 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.

**14.** 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.

## Materiality

**15.** 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 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 2022/23 audit

**16.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for the college and its group are set out in [Exhibit 1](#).

## Exhibit 1

### 2022/23 Materiality levels for the college and its group

Materiality	Amount	Group
<b>Planning materiality</b> – 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 operations. For the year ended 31 July 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22.	£1.280 million	£1.738 million
<b>Performance materiality</b> – 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	£0.896 million	£1.217 million

procedures should be considered. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.

<b>Reporting threshold (ie clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£64 thousand	£87 thousand
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Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**17.** 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, meetings with internal audit, attendance at committees and a review of supporting information.

**18.** 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.

**19.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. This risk has the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

2022/23 Significant risk of material misstatement to the annual report and financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240,</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"> <li>Assess the design and implementation of controls over journal entry processing.</li> <li>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.</li> <li>Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>Evaluate significant transactions outside the normal course of business.</li> </ul>

Significant risk of material misstatement	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.		<ul style="list-style-type: none"> <li>• Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focussed testing of accounting accruals and prepayments.</li> </ul>

Source: Audit Scotland

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

**20.** 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)).

**21.** 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.

**22.** 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.

### Other areas of audit focus

**23.** As part of our assessment of audit risks, we have identified two 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 risk, we do not consider these to represent significant risks. 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.

**24.** The areas of specific audit focus are:

- **Valuation of land and buildings:** The college held land and buildings with a net book value of £131.4 million as at 31 July 2022. Land and buildings are revalued every five years, with the last full valuation exercise completed during 2019/20. We will review the interim valuation of these assets as at 31 July 2023. We will also review management's assessment of whether there are indicators of impairment with these assets as at 31 July 2023.
- **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.

### Group Consideration

**25.** As group auditors, we are required under International Standard on Auditing (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.

**26.** The college has a group which comprises the single entity and two components, South Lanarkshire College and Amcol. Through our audit planning procedures, we have assessed that South Lanarkshire College is significant to the group. Our planned audit approach for the components is informed by our assessment of risk within the components and our consideration of the size and nature of their assets, liabilities and transaction streams.

**27.** The audits of the financial information of South Lanarkshire College is performed by other audit teams within Audit Scotland. We plan to place reliance on the work of the component auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.



## **Audit of the performance report, governance statement and remuneration and staff report**

**28.** In addition to the appointed auditor's opinion of the financial statements, the Audit General for Scotland prescribes that the appointed auditor should provide opinions as to whether the performance report, governance statement, and the audited part of the remuneration and staff report, have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the financial statements.

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

- Performance Report: Consideration of performance, including financial, information reported to the college's Board of Management and committees during the year.
- Governance Statement: Reviewing the annual certificate of assurance from the college Principal to the Accountable Officer of the sector (being the Scottish Funding Council's Chief Executive), reviewing the college's assessment against the Code of Good Governance for Scotland's College's and, Internal Audit's annual report.
- Remuneration and Staff Report: Obtaining and reviewing payroll data and HR reports.

**30.** Based on our knowledge of the audit, and the established procedures in place to produce these statements, we have not identified any specific risks to be communicated to those charged with governance in relation to the audit of the performance report, governance statement, and audited part of the remuneration and staff report.

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# Wider Scope and Best Value

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## Introduction

**31.** 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.

**32.** 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.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the 2022/23 financial position and longer-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 other resources.

## Wider scope risks

**33.** We have identified wider scope audit risks in the areas set out in [Exhibit 3](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

**Exhibit 3****2022/23 wider scope risk**

Description of risk	Sources of assurance	Planned audit response
<p><b>1. Financial sustainability</b></p> <p>An underlying operating deficit of £1,788k was incurred in 2021/22 due to movements in pay expenditure, the costs associated with a voluntary severance program and loss of some credit income.</p> <p>There are challenges to the medium and longer-term financial sustainability due to uncertainty over future Scottish Government funding allocations, the rising cost of inflation and the cost of implementing future pay settlements.</p>	<p>Regular finance monitoring and reporting to the Board.</p>	<p>Review financial monitoring reports to assess the financial position, including progress in realising efficiency savings.</p> <p>Review financial plans and outlook papers to assess the short and medium-term and the underlying assumptions applied.</p> <p>Review the college's updated financial forecast return (FFR) submitted to the Scottish Funding Council.</p>

Source: Audit Scotland

**Climate Change**

**34.** Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**35.** The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on the college's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

**Cyber Security**

**36.** There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In

2022/23, we will consider the college's arrangements for managing and mitigating cyber security risks.

## **National Fraud Initiative**

**37.** The college participates in the National Fraud Initiative in Scotland. We will monitor its progress with investigating matches identified in this exercise.

## **Duty of Best Value**

**38.** 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

**39.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 3](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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

**41.** 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 accounts. 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.

**42.** [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 2023.

## Exhibit 4 2022/23 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 July 2023	Circulated out with committee cycle and then presented to Audit and Risk Committee on 4 September 2023
Independent Auditor's Report	31 December 2023	4 December 2023
Annual Audit Report	31 December 2023	4 December 2023

Source: Audit Scotland



## Timetable

**43.** 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.

**44.** We intend to take a hybrid approach to the 2022/23 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 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.

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### Exhibit 5 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited New College Lanarkshire single entity annual report and accounts with complete working papers package.	23 October 2023
Latest submission date for the receipt of the consolidated annual report and accounts with complete working papers package.	3 November 2023
Latest date for final clearance meeting with the Chief Financial Officer and Financial Controller, agreement of the audited and unsigned annual report and financial statements and the proposed annual audit report.	By 24 November 2023
Issue of proposed annual audit report, letter of management representation and proposed Independent Auditor's Report to those charged with governance	27 November 2023
Presentation of proposed annual audit report to those charged with governance (Audit and Risk Committee)	4 December 2023
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.	11 December 2023

Source: Audit Scotland

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## Audit fee

**45.** In determining the audit fee, we have taken account of the risk exposure of the college and the planned management assurances in place. The audit fee for 2022/23 is £71,190.

**46.** Our fees have increased in 2022/23. This is primarily because of the current audit market and the rising costs associated with delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

**47.** In setting the fee for 2022/23 we have assumed that the college has effective governance arrangements and will prepare comprehensive and accurate accounts 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.

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# Other matters

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## Internal audit

**48.** It is the responsibility of the college to establish adequate internal audit arrangements. The college's internal audit function is provided by Wylie Bissett.

**49.** Whilst we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities. Specifically, their reviews covering budgetary control and corporate governance will be considered as part of our wider scope responsibilities.

## Independence and objectivity

**50.** Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

**51.** 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.

**52.** The appointed auditor for the college is Louisa Yule, 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

**53.** 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.

**54.** Audit Scotland is 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.



**55.** 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.

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# Appendix 1. Your audit team

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

Louisa Yule  
Senior Audit Manager  
lyule@audit-  
scotland.gov.uk

Louisa is the appointed auditor for the audit of the college and will sign off the independent auditor's report on New College Lanarkshire's annual report and accounts. Louisa has 18 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Jack Kerr  
Senior Auditor  
jkerr@audit-  
scotland.gov.uk

Jack has experience of delivering audits across several areas of the Scottish public sector including further education colleges. Jack will be your primary contact and will be responsible for the day-to-day management of the college audit.

# New College Lanarkshire

## Annual Audit Plan 2022/23

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](http://www.audit-scotland.gov.uk/accessibility)

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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