

North East Scotland College

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for North East Scotland College

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of North East Scotland College. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the financial statements, leading to an independent audit opinion
- independent audit opinions on other statutory information published within the financial statement including the audited part of the Remuneration and Staff Report, Performance Report, and the Governance Statement
- consideration of arrangements in relation to Best Value and wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Audit Appointment

2. We are pleased to be appointed as the college's external auditor 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, identifying and encouraging good practice and by making recommendations. In so doing, we will help the college promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and North East Scotland College Regional Board

6. 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

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 provided with the 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.

Regional Board responsibilities

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

10. The Regional Board 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.

Financial statements audit planning

Introduction

11. The financial statements are an essential part of demonstrating the college's stewardship of resources and its performance in the use of those resources.

12. 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

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. We are required to plan our audit to obtain reasonable assurance that 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

14. We assess materiality at different levels as described in [Exhibit 1](#), including materiality values.

Exhibit 1

2022/23 Materiality levels for North East Scotland College

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 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.	£1,000,000
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 should be considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.	£650,000

Materiality	Amount
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. We have set this at 5% of planning materiality.	£50,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. 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, consideration of the work of internal audit 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 as the audit progresses. 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 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 risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (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 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	Sources of assurance	Planned audit response
		<ul style="list-style-type: none"> • 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.

Source: Audit Scotland

18. As set out in International Standard on Auditing (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 most of the 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. We have rebutted this risk as the college's main expenditure streams can be readily forecast based on a predictable pattern of spend and comprise a high volume of low value items. These include staff costs, interest payment and non-cash costs such as depreciation which are not considered areas of risk. This limits the opportunities to manipulate the way expenditure is recognised.

20. As a result, we have not 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 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.

22. 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.

Land and buildings were subject to full independent valuation in 2019/20 with a desktop valuation exercise at 31 July 2022 which resulted in a net book value of £104m. We anticipate that with the sharp rise in inflation, there may be significant changes in the value of the college's properties by 31 July 2023. Where this is likely to be the case, this increases the risk of material misstatement in the financial statements. Our work in this area includes using the work of an expert. In this case, we will draw assurance from the work of the valuer.

- **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 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.

There is a degree of subjectivity in the measurement and valuation of the net pension position due to the specialist and management assumptions adopted. The significant increase in inflation rate this year could have a material impact on these assumptions. Changes in the assumptions could result in material changes in the valuation at the year end.

Our work in this area also includes using the work of an expert. In this case, we draw assurances from the work of the actuary. We also consider the report by Audit Scotland's consulting actuary on actuarial valuations across Scottish local government pension funds. We will determine whether the net pension position at the year end is accounted for and presented in the financial statements in line with relevant guidance.

- **Other sources of grants:** The college receives other grants (c£6.3m in 2021/22) 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. 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.

Group Consideration

23. 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.

24. The college has a group which comprises two subsidiaries. While the audits of the financial information of the other components are performed by other auditors, we do not plan to place reliance on the work of those auditors. We will however consider the assurances the college obtains for its group accounts including year end reconciliations and the consolidation process.

25. 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. Our work will therefore 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.

Wider Scope and Best Value

Introduction

26. 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.

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

- **Financial management** - 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, bribery and corruption.
- **Financial sustainability** - means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs. We will consider the extent to which audited bodies have shown regard to financial sustainability and are planning ahead effectively. We look at planning for the medium term (two to five years) and longer term (longer than five years). The audit will include consideration of the use of the going concern basis of accounting, as part of the annual audit. We will also comment on financial sustainability in the longer term.
- **Vision, leadership and governance** - audited bodies must have a clear vision and strategy, and work together with partners and communities to improve outcomes and set priorities for improvement. We will consider the college's arrangements to deliver its vision, strategy and priorities. We will 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

28. 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 risks**

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial Sustainability</p> <p>The further education sector as a whole is facing financial challenges. Nescol is forecasting a £1m deficit in each of the financial years, 2022/23 and 2023/24. Uncertainties continue to exist around the potential scale of any pay awards.</p> <p>There is a risk that the college will not find sufficient efficiency savings and commercial income to return a break-even position in the medium term.</p> <p>Consequently, the quality and volume of service delivery may reduce.</p>	<ul style="list-style-type: none"> • Regular budget monitoring • Quarterly management accounts • Medium term financial planning arrangements. 	<ul style="list-style-type: none"> • Review financial and savings plans. • Discuss current financial situation and forecasts with officers and the various initiatives being explored to fill funding gaps. • Review board and committee minutes and papers. • Conclude our findings in the Annual Audit Report.

Source: Audit Scotland

29. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider tackling climate change and responding to cyber security threats.

30. Climate change – The public sector has a key role to play in ensuring that national climate change targets are met and in adapting the impacts of climate change. The Auditor General is developing a programme of work on climate change. As part of this work, auditors will gather information in 2022/23 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.

31. Cyber security - 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 our 2022/23 audit, we will consider the college’s arrangements for managing and mitigating such risks.

Duty of Best Value

32. [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

33. 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.

34. 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.

35. We will provide an independent auditor's report to the college, the Scottish Parliament and the Auditor General setting out our opinions on the financial statements. We will provide the college and the Auditor General with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

36. [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	30 June 2023	20 September 2023
Independent Auditor's Report	31 December 2023	29 November 2023
Annual Audit Report	31 December 2023	29 November 2023

Source: Audit Scotland



Timetable

37. To support an efficient audit, it is critical that the timetable for producing the financial statements for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

38. 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.

Exhibit 5

Proposed timetable for the audit of the financial statements

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited financial statements with complete working papers package.	29 September 2023
Latest date for final clearance meeting with the Vice Principal Finance and Resources	3 November 2023
Agreement of audited and unsigned financial statements	17 November 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	17 November 2023
Issue of Annual Audit Report to those charged with governance.	22 November 2023
Signed Independent Auditor's Report	29 November 2023

Source: Audit Scotland

Audit fee

39. In determining the audit fee, we have taken account of the risk exposure of North East Scotland College and the planned management assurances in place. The proposed audit fee for 2022/23 is £60,040.

40. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in 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.

41. 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.

Other matters

Internal audit

42. It is the college's responsibility to establish adequate internal audit arrangements. Services are provided by Henderson Loggie.

43. From our initial review of internal audit plans, we intend to use the work of internal audit in the following areas to provide some assurance for our audit procedures on aspects of the financial statements:

- General ledger
- Credits audit
- Student support funds.

44. We also intend to draw general assurance from internal audit when assessing the college's governance arrangements and our wider scope responsibilities.

Independence and objectivity

45. 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.

46. 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.

47. The appointed auditor for North East Scotland College is Anne MacDonald, 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

48. 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.

49. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

50. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

51. 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.

52. 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.

North East Scotland 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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