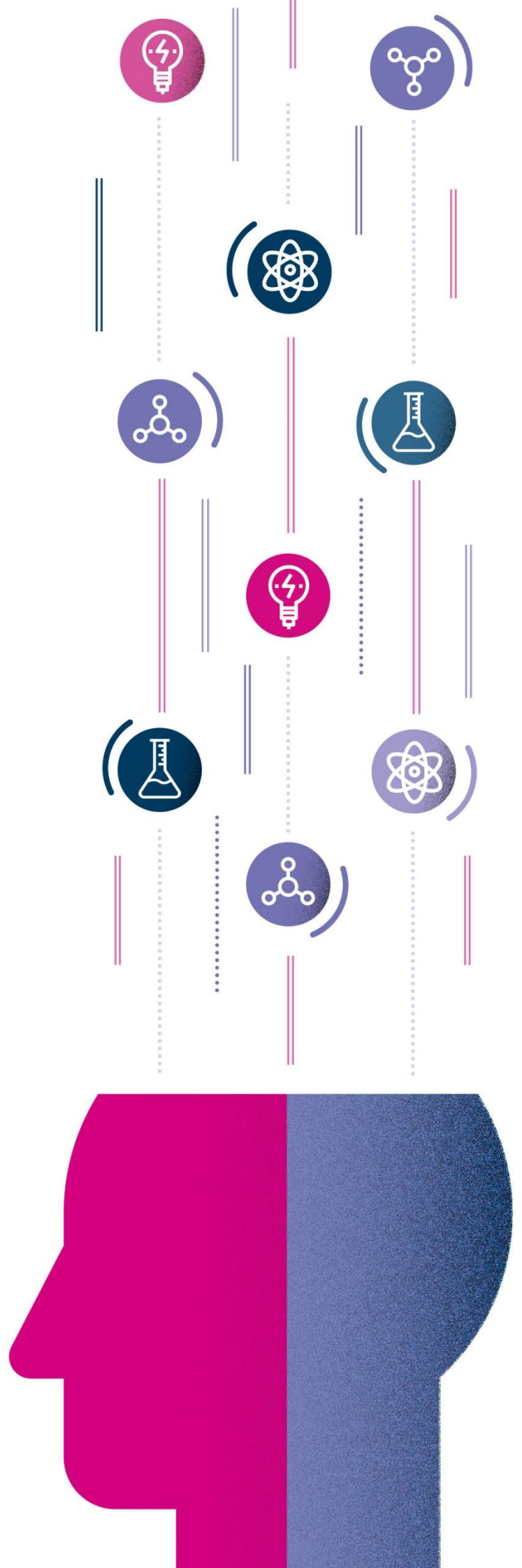


# Dumfries and Galloway College

External Audit Plan 2018/19

May 2019





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# 1. Introduction

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## Introduction

1. This document summarises the work plan for our 2018/19 external audit of Dumfries and Galloway College.
2. The core elements of our work include:
  - an audit of the 2018/19 annual report and financial statements;
  - proportionate application of the wider public audit scope;
  - monitoring the College's participation in the National Fraud Initiative (NFI); and
  - any other work requested by Audit Scotland.
7. We confirm that we will comply with Financial Reporting Council's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.
8. Scott-Moncrieff provides advisory services to the College on tax matters. The expected non-audit fee for this work in 2017/18 is £6,000.
9. We set out in Appendix 2 our assessment and confirmation of independence.

## Audit appointment

3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. The Auditor General is independent and not subject to control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of the Scottish Government and most public bodies, including further education bodies in Scotland, and reporting on their financial health and performance.
4. Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out her statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Auditor General has appointed Scott-Moncrieff as external auditor of the College for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2018/19 and summarises:
  - the responsibilities of Scott-Moncrieff as the external auditor;
  - our audit strategy;
  - our planned audit work and how we will approach it;
  - our proposed audit outputs and timetable; and
  - background to Scott-Moncrieff and the audit team.

## Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

## Adding value through the audit

10. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to Dumfries and Galloway College through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the College promote improved standards of governance, better management and decision making and more effective use of resources.

## Feedback

11. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: [www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX).
12. While this plan is addressed to the College, it will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)



# 2. Respective responsibilities of the auditor and the Board of Management

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# Respective responsibilities of the auditor and the Board of Management

## Auditor responsibilities

### Code of Audit Practice

13. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and it is a condition of our appointment that we follow it.

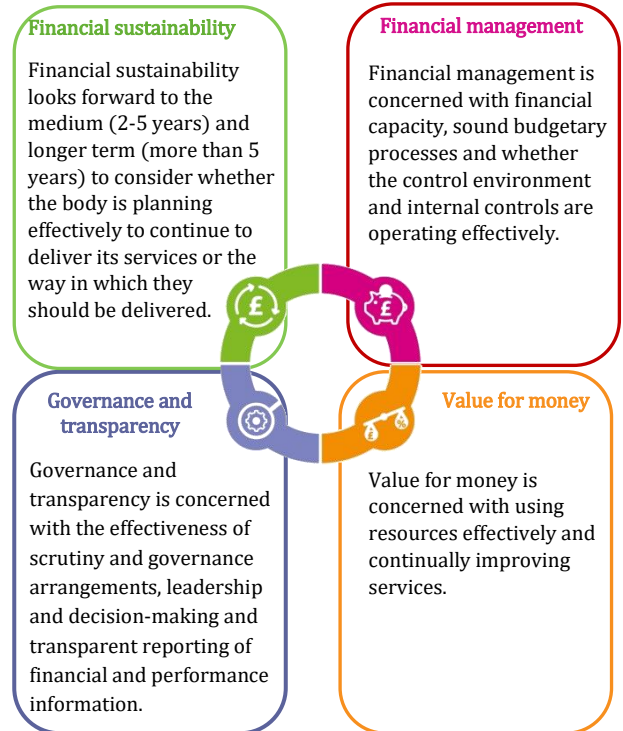
### Our responsibilities

14. Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK) (ISAs (UK)), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards
- provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports
- notify the Auditor General when circumstances indicate that a statutory report may be required
- demonstrate compliance with the wider public audit scope (proportionate to the audited body) by reviewing and providing judgements and conclusions on the audited bodies':
  - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;
  - suitability and effectiveness of corporate governance arrangements; and
  - financial position and arrangements for securing financial sustainability.

15. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

## Exhibit 1: Audit dimensions of wider scope public audit



## Wider scope audit work

16. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

17. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.

18. Where the application of the full wider scope is judged by us not to be appropriate then our annual audit work on the wider scope is restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and



- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
19. Our assessment takes into account the size, nature and risks of the College. Taking these factors into consideration, we have concluded that application of the restricted wider scope is appropriate to the College.

## The Board of Management’s responsibilities

20. The Board of Management has 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 successfully deliver their objectives. The Board of Management’s responsibilities are summarised in Exhibit 2.

## Exhibit 2 – Board of Management responsibilities

Area	The Board of Management’s responsibilities
<p><b>Financial statements:</b> Annual accounts containing financial statements and other related reports should be prepared.</p>	<p>The Board of Management has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures;</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;</li> <li>• maintaining proper accounting records; and</li> <li>• preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements.</li> </ul>
<p><b>Financial sustainability:</b> Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfil its functions in an affordable and sustainable manner.</p>	<p>The Board of Management is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with any statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• How the organisation plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>



Area	The Board of Management's responsibilities
<p><b>Financial management:</b> Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>The Board of Management is responsible for ensuring that financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>The Board of Management is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>The Board of Management is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p><b>Governance and transparency:</b> Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>The Board of Management is responsible for establishing arrangements to ensure the proper conduct of their affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p> <p>The Board of Management is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>
<p><b>Value for money:</b> Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>	<p>The Board of Management has a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>





# 3. Audit strategy

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# Audit strategy

## Risk-based audit approach

21. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our

audit focuses on the areas of highest risk. Our audit planning is based on:

Discussions with senior officers and non-executive members	Our understanding of the further education sector and its key priorities and risks	Attendance at the Audit Committee
Guidance from Audit Scotland	Discussions with Audit Scotland and other sector auditors	Discussions with internal audit and reviews of their plans and reports
Review of the College's corporate strategies and plans	Review of the College's corporate risk register	The outcomes of prior year audits

22. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise.

### Communications with those charged with governance

23. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with the College that these communications will be through the Audit Committee.

### Professional standards and guidance

24. We perform our audit of the financial statements in accordance with International Standards on Auditing (UK) (ISAs (UK)), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

### Partnership working

25. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

### Audit Scotland

26. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with them throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

27. Audit Scotland undertakes national performance audits on issues affecting the public sector. We will review the College arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We plan to assess the extent to which the College uses the national performance reports as a means to help improve performance at the local level.

28. During the year we may also be required to provide information to Audit Scotland to support the national performance audits.



## Internal audit

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29. The College's internal audit service is provided by RSM. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the College's total audit resource. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource available to the College is used efficiently and effectively.

## Other inspection bodies

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30. We plan to contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies, as appropriate.



# 4. Annual report and financial statements

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# Annual report and financial statements

## Introduction

31. Audited bodies' annual report and financial statements are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the College's annual report and financial statements.
32. The annual report and financial statements of the College comprise the financial statements, the performance report and the accountability report.

## Approach to audit of the financial statements

33. Our opinion on the financial statements will be based on:

### Risk-based audit planning

34. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the financial statements will be based.

### An audit of key systems and internal controls

35. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements
36. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and the College's own policies and procedures.
37. We will take cognisance of any relevant internal audit reviews of systems and controls.
38. We will update the risk assessment following our evaluation of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

### A final audit of the financial statements

39. During our final audit we will test and review the material amounts and disclosures in the financial statements. The extent of testing will be based on our risk assessment.

40. Our final audit will seek to provide reasonable assurance that the financial statements are free from material misstatement and comply with the Statement of Recommended Practice: Accounting for Further and Higher Education (the SORP), HM Treasury Financial Reporting Manual 2018/19 (FRM) and the Accounts Direction.
41. In order to provide assurance on the regularity of transactions, we also review whether, in all material respects, expenditure has been incurred and income applied in accordance with guidance issued by Scottish Ministers.

### Independent auditor's report

42. Our opinion on whether the financial statements give a true and fair view and of the regularity of transactions will be set out in our independent auditor's report which will be included in the annual report and financial statements.
43. We also provide an opinion on the audited part of the remuneration report, annual governance statement and performance report.

### Materiality

44. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We will review our assessment of materiality throughout our audit.
45. Our initial assessment of materiality for the financial statements is £0.245 million (approximately 1.8% of the 2017/18 expenditure), which is considered one of the principal considerations for users of the financial statements when assessing performance. We will continue to review our assessment of materiality throughout our audit.
46. Performance materiality is the amount set by the auditor at less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the financial statements as a whole.



47. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

- All material corrected misstatements;
- Uncorrected misstatements over £12,500; and
- Other misstatements below £12,500 that we believe warrant reporting on qualitative grounds.

**Key audit risks in the financial statements**

	Area risk assessment £million		
	High	Medium	Low
Performance materiality	0.111	0.135	0.167

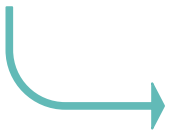
49. Auditing standards require that we inform the Audit Committee of our assessment of the risk of material misstatement in the financial statements. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Audit Committee if our assessment changes significantly during the audit.

48. We will report any misstatements identified through our audit that fall into one of the following categories:

### Exhibit 3 – Key audit risks in the financial statements

#### 1. Management override

In any organisation, there exists a risk that management has the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor’s responsibilities relating to fraud in an audit of financial statements*.



50. In response to this risk we will review the College’s accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We will adopt data analytics techniques to review and test aspects of this significant risk. We will review the key accounting estimates, judgements and decisions made by management. This will include, for example, depreciation and amortisation rates, asset valuations, provisions and bad debt analysis.

#### 2. Revenue recognition

Under ISA (UK) 240- *The auditor’s responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the College could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.



51. As part of our planning process we have considered the nature of the revenue streams at the College against the risk factors set out in ISA (UK) 240. We have identified that for Scottish Funding Council (SFC) grant funding the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate revenue of this nature. We have concluded, however, the risk of fraud in relation to revenue recognition is



present in all other income streams.

52. We will review evaluate each material revenue stream, including the controls over revenue accounting. We will conduct substantive testing on all material revenue streams to confirm revenue has been recognised appropriately and in line with accounting policies.

### 3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 “*The Audit of Public Sector Financial Statements*” which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

53. In response to this risk we will evaluate the significant expenditure streams at the College (excluding payroll which is not deemed to be a significant risk area) and review the controls in place over accounting for expenditure. We will consider the College’s key areas of expenditure and obtain evidence that the expenditure was recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

### 4. Estates developments

The College continues to make significant investment in the estate. £4 million is expected to be invested in the campus on new buildings, interior fit out and refurbishments by the end of the 2019 as part of a significant tranche of work and development. Around half of this total project spend is expected to be capital additions. By year end (31 July 2019), a significant element of this activity is expected to be reflected in the financial statements. The Finance Team is working on this at time of writing, and is engaging external expert support to ensure progress, values and related narrative disclosure reflects accounting requirements for 2018/19.

54. We will review the arrangements in place in relation to the accounting for these developments. We will review the reasonableness of the treatment, any related assumptions, the use of any experts, and any other observable data. We will agree the disclosures in the financial statements to information provided and underlying nature of the transactions and balances.

## The performance report, accountability report and other information

55. The HM Treasury Government Financial Reporting Manual 2018/19 sets out the content required within the annual report and financial statements. In addition to presenting our opinions over the financial statements our independent auditor’s report will also present our opinion on other aspects of the annual report and financial statements:

## Other information

56. “Other information” in the annual report and financial statements comprises any information other than the financial statements and our independent auditor’s report thereon. We do not express any form of assurance conclusion on the “other information” except as specifically stated below.



57. We read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our independent auditor's report.

### The performance report

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58. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It contains:

- an overview of the organisation, its purpose, the key risks to the achievement of its objectives and how it has performed during the year; and
- a detailed summary of how the entity measures its performance.

59. Our independent auditor's report will confirm whether in our opinion the performance report has been properly prepared and is consistent with the financial statements.

### The accountability report

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60. The accountability report is required in order to meet key parliamentary accountability requirements. It has three sections:

- A corporate governance report (including a governance statement) explaining the composition and organisation of the entity's governance structures and how they support the achievement of the entity's objectives.
- A remuneration and staff report setting out staff numbers and costs as well as the entity's remuneration policy for directors and the remuneration awarded to directors.
- A parliamentary accountability report disclosing the regularity of expenditure and other parliamentary accountability requirements.

61. Our independent auditor's report will confirm whether in our opinion the governance statement and the audited part of the remuneration and staff report have been properly prepared and are consistent with the financial statements.





# 5. Wider scope audit

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## Wider scope audit

### Introduction

62. As described in section 2, the Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. Following consideration of the size, nature and risks of the College, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope will therefore be restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

63. Our planned audit work against these two areas is risk based and proportionate. Our initial assessment builds upon the understanding of the College which

we developed from previous years, along with discussions with management and review of College minutes and key strategy documents.

64. In 2018/19 we have also considered the following risk areas as they relate to the College:

- EU withdrawal
- Changing landscape of public financial management
- Dependency on key suppliers
- Openness and transparency

65. At this stage of our audit planning process, we have identified one significant risk to the wider scope of our audit (Exhibit 4). Audit planning is a continuous process and we will report any identified significant risks, as they relate to the wider scope, in our annual audit report.

## Exhibit 4 – Wider Scope Significant Risks

### 1. Financial sustainability:

As is the case across the sector, the financial sustainability of the College remains challenging. The College is currently working through detailed budgets and projections, taking account of pressure factors such as cost inflation, national pay bargaining implications (unresolved as at time of writing), general pay uplifts, and backlog maintenance. Including elements of zero-based budgeting for 2018/19 has led to Finance and senior management driving a more fundamental review of the cost structure underpinning the College’s activities. Management anticipate that savings of around £0.25 million will be required and are moving forward with a 3% efficiency savings target.

66. During our audit we will consider whether the College has adequate arrangements in place for managing its financial position and its use of resources. Our conclusion will be based on a review of the College's financial performance, underlying financial position, financial plans and financial reporting.



# 6. Audit outputs, timetables and fees

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## Audit outputs, timetable and fees

This section of our plan provides details of our audit outputs, timetable and proposed audit fees for the audit of the College.

Audit output	Format	Description	Target month
External audit plan	Report	This report sets out the scope of our audit for 2018/19.	May 2019
Independent Auditor's Report	Report	This report will contain our opinion on the financial statements, the regularity of transactions and the audited part of the remuneration report, annual governance statement and performance report.	November 2019 Audit Committee
Annual Report to the College and the Auditor General for Scotland	Report	At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice.	November 2019 Audit Committee

### Audit outputs

67. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
68. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

and support expectations, such as the Board meeting and Development Day).

72. The audit fee reflects the level of work we consider required in response to the key audit risks raised within this audit plan.

### Audit fee

69. Audit Scotland sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.
70. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.
71. The Audit Scotland expected fee for the College is £15,720. Audit Scotland allows for variance in the fee of up to 20%, to reflect local circumstances at audited bodies. The 2017/18 fee was £16,070. We propose setting the fee 8% above the prior year level to take cognisance of the additional risks identified for audit focus and additional work performed to support the College (including additional meeting

	2018/19	2017/18 (actual)
Auditor remuneration	£15,750	£14,430
Pooled costs	£810	£880
Audit support costs	£850	£760
<b>Total fee</b>	<b>£17,410</b>	<b>£16,070</b>

73. We will take account of the risk exposure of the College and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.



## Audit timetable

74. A summary timetable, including audit outputs, is set out as follows:

<b>APR 19</b>	●	Planning meeting to inform the 2018/19 audit
<b>MAY 19</b>	●	Presentation of External Audit Plan to the Audit Committee
<b>JUL 19</b>	●	Catch up with College Finance Team to discuss any emerging issues, challenges and risks
<b>SEPT 19</b>	●	Accounts presented for audit and final audit visit begins
<b>NOV- DEC 19</b>	●	Annual audit report presented to the Audit Committee and submitted to the Auditor General for Scotland



# 7. Appendices

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## Appendix 1: Scott-Moncrieff

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 16 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

Edinburgh	Glasgow	Inverness
Exchange Place 3 Semple Street Edinburgh EH3 8BL	25 Bothwell Street Glasgow G2 6NL	10 Ardross Street Inverness IV3 5NS
(0131) 473 3500	(0141) 567 4500	(01463) 701 940

### Your audit engagement lead



#### David Eardley

**Audit Director**

[david.eardley@scott-moncrieff.com](mailto:david.eardley@scott-moncrieff.com)

David has a decade and a half of experience and specialises in external and internal audit of public sector clients. David’s primary area of focus and expertise is in the health and education sectors.

David works with a range of public sector clients including the NHS, education and central government, from £1.5billion health boards to specialist government entities. David has a wealth of technical accounting expertise, coupled with strong interpersonal skills and client relationship skills.



## Appendix 2: Confirmation of independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

### Non-audit services

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We are required to seek approval for potential non-audit work from Audit Scotland before we accept any assignment. The approval process requires us to demonstrate to Audit Scotland how we comply with Ethical Standards and manage and mitigate potential risks to independence. This process also includes a separate review by our Ethics Partner to also confirm that we appropriately manage potential threats to our independence in our appointment as external auditors.

Scott-Moncrieff provides advisory services to the College on tax (VAT and PSA) matters. All advisory services are provided by independent partners and staff who have no involvement in the audit of the annual report and financial statements. The total value of the advisory services provided in 2018/19 is anticipated to be approximately £6,000 (excluding VAT), which has been internally and externally considered and approved against ethical standards and independence measures.

### Confirmation of independence

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We confirm that we will comply with FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff, the College, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.





## Appendix 3: Statement of understanding

### Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of the College's Board of Management ("the Board") and Scott-Moncrieff.

### Annual report and financial statements

We will require the annual report and financial statements and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant College staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statements strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

### Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the Board's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the College during the course of the audit on matters having a material effect on the financial statements. This will take place by means of a letter of representation, which will require to be signed by the Principal.

### Internal audit

It is the responsibility of the Board to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

### Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

### Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

### Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

### Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting David Eardley. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

### Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work. Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

### Agreement of terms

We shall be grateful if the Audit Committee would consider and note this statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.

