

# Edinburgh College

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for Edinburgh College

June 2019

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


## Adding value

3. We aim to add value to Edinburgh 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 intend to help the College promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for our 2018/19 audit of the College. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</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>• Detailed testing of journal entries</li> <li>• Review of accounting estimates</li> <li>• Focused testing of accruals and prepayments</li> <li>• Focused testing of accounting adjustments at the year end</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>

**Audit Risk****Source of assurance****Planned audit work****2 Risk of fraud over income**

ISA 240 requires auditors to consider the risk of fraud over income where income streams are significant.

Edinburgh College recorded income of £66 million in 2017/18, of which £51 million was provided by the Scottish Funding Council and £15 million was received from other sources.

SFC funding is reliant on accurate recording of student activity targets.

The extent and complexity of the College income streams means that there is an inherent risk of fraud which we are unable to rebut.

Effective counter-fraud and whistleblowing policies in place.

Financial regulations and procedures provide key controls over systems and processes.

Ongoing monitoring by the SFC.

Adequate segregation of duties, sound budget monitoring arrangements and accountability.

Internal audit is reviewing the financial control systems.

- SFC grant income reconciled to the funding allocation
- Consider relevant findings raised by internal audit and any potential impact on our audit approach
- Analytical procedures on income streams
- Detailed testing of revenue transactions focusing on the areas of greatest risk
- Consider findings raised by internal audit on their review of financial controls.

**3 Risk of fraud over expenditure**

Public sector auditors are required to focus their consideration of the risk of fraud and error on expenditure as most public sector bodies are net expenditure bodies. Edinburgh College recorded an excess of expenditure over income of £2.3 million in 2017/18 with gross expenditure totalling £68.5 million.

The extent and complexity of expenditure means that there is an inherent risk of fraud.

Effective budget monitoring processes in place.

Effective counter-fraud and whistleblowing policies in place.

Financial regulations and procedures provide key controls over systems and processes.

Ongoing monitoring by the SFC.

Adequate segregation of duties, sound budget monitoring arrangements and accountability.

Internal audit is reviewing financial control systems.

- Detailed testing of significant expenditure transactions at the year-end including cut off testing
- Analytical procedures on expenditure
- Review of accruals and provisions
- Consider findings raised by internal audit on their review of financial control systems.

**4 Estimation and judgements**

There is a significant degree of subjectivity in the measurement and valuation of the following material account areas:

- non-current assets
- pension liabilities
- provisions.


This subjectivity represents an increased risk of misstatement in the financial statements.

Reliance upon competent suitably qualified professional valuers.

Pension figures are derived from valuation calculations prepared by appointed actuaries.

Officers review the actuary information to ensure data and assumptions used are reasonable.

- Review of accounting estimates and policies to ensure they are appropriate and properly applied
- Focused substantive testing of year-end balances
- Assess the reliability, professional competence, capability and objectivity of the actuary and valuer as experts on whom reliance is placed

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
	Any provisions will be reviewed by finance officers in consultation with the College's legal advisors.	<ul style="list-style-type: none"> <li>Review of report assessing actuarial processes.</li> </ul>
<p><b>5 Annual report</b></p> <p>In the prior year, the draft accounts received initially for audit review contained elements of duplication and on occasion lacked structure.</p> <p>There is a risk that that annual report does not provide a complete and compliant narrative to accompany the financial statements.</p>	Independent review of account narrative to be undertaken from outwith Finance prior to submission of draft accounts to audit.	<ul style="list-style-type: none"> <li>Review of annual report narrative against relevant requirements and guidance to ensure compliance.</li> </ul>
<p><b>Wider dimension issues and risks</b></p>		
<p><b>6 Financial management</b></p> <p>Last year, we reported that while the College achieved savings in excess of the BTP targets, savings from voluntary severance were less than planned.</p> <p>There is a risk that these additional savings are not recurring and that the cost base has not been reduced permanently.</p>	Regular production and review of accurate monthly management accounts reviewed by budget holders and senior management.	<ul style="list-style-type: none"> <li>Monitor progress of actual spend versus budget through the monthly management accounts</li> <li>Review of committee minutes throughout the year for any changes in financial position.</li> </ul>
<p><b>7 Financial sustainability</b></p> <p>There are challenges to financial sustainability for the College, as identified in its risk register. These include:</p> <ul style="list-style-type: none"> <li>Cost of living pay increases and pay harmonisation</li> <li>Shortfall in Commercial Income</li> <li>Workforce Planning and Development</li> <li>Estates maintenance back log</li> <li>Increasing employer pension contributions</li> </ul> <p>There is a risk that the College will not have enough funds to cover these costs.</p>	<p>Risk register monitored by Audit and Risk Assurance Committee.</p> <p>Board and Policy and Resources committee oversight of financial reports.</p>	<ul style="list-style-type: none"> <li>Review the College's long-term financial strategy</li> <li>Monitor achievement of financial targets</li> <li>Consider how workforce related issues are reflected in financial planning.</li> </ul>
<p><b>8 EU Withdrawal</b></p> <p>The UK's decision to leave the EU represents a major constitutional change for Scotland. It will affect everyone in Scotland to some degree including the College. What these effects will be remains uncertain, but they will unfold over both the short and the long term.</p>	<p>Board's consideration of implications of the EU withdrawal.</p> <p>Risk recognised in the risk register and discussed at board meetings.</p>	<ul style="list-style-type: none"> <li>Assess the College's response to EU withdrawal.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
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There is a risk that withdrawal from the EU adversely affects College business and finances.

Source: Audit Scotland

## Reporting arrangements

**5.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), 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).

**6.** 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 officer(s) to confirm factual accuracy.

**7.** We will provide an independent auditor's report to Edinburgh College, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

## Exhibit 2 2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	30 April 2019	29 May 2019
Management Report	10 May 2019	29 May 2019
Annual Audit Report	13 November 2019	20 November 2019
Independent Auditor's Report	As soon as possible following the Board meeting	N/A

Source: Audit Scotland

## Audit fee

**8.** The proposed audit fee for the 2018/19 audit of Edinburgh College is £30,100 [2017/18 - £29,500]. In determining the audit fee, we have taken account of the risk exposure of the College and the planned management assurances in place. Our audit approach assumes receipt of the unaudited financial statements with a complete working papers package on 23 September 2019.

**9.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

## Responsibilities

### Audit and Risk Assurance Committee and Board of Management

**10.** Audited bodies have 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 successfully deliver their objectives.

**11.** The audit of the financial statements does not relieve management or the Audit and Risk Assurance Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

**12.** 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.

**13.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

**14.** Our audit team has changed since the date of our initial appointment. We include information about the current team in [Appendix 1](#).



# Audit scope and timing

## Financial Statements

**15.** The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Edinburgh College and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the College will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**16.** We will give an opinion on whether the financial statements, as to:

- Whether they give a true and fair view of the of the state of affairs of Edinburgh College as at 31 March 2019 and of its income and expenditure
- Whether they have been properly prepared in accordance with relevant legislation and the applicable financial reporting framework
- The regularity of income and expenditure.

## Other information in the annual accounts

**17.** We also review and report on other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**18.** We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

## Materiality

**19.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

**20.** We calculate materiality at different levels as described below. The calculated materiality values for the College are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 July 2019 based on the projected outturn in the January 2019 management accounts.	£670,000
<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 would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 40% of planning materiality.	£270,000
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 3% of planning materiality.	£20,000



Source: Audit Scotland

## Timetable

To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us for the production of the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Assurance Committee dates.

## Exhibit 4

### Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	23 September 2019
Latest date for final clearance meeting with Head of Finance	8 November 2019
Agreement of audited unsigned annual accounts	13 November 2019
Issue of Annual Audit Report including ISA260 report to those charged with governance	
Independent auditor's report signed	By 31 December 2019

## Internal audit

**21.** Internal audit is provided by BDO. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors

- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**22.** We will report any significant findings to management on a timely basis.

### Using the work of internal audit

**23.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

### Audit dimensions

**24.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

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## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

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### Financial sustainability

**25.** 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 College's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will review selected aspects over our five-year audit appointment and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

### Financial management

**26.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the College has arrangements in place to ensure systems of internal control are operating effectively
- whether the College can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how the College has assured itself that its financial capacity and skills are appropriate
- whether the College has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

### **Governance and transparency**

**27.** 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. We will review, conclude and report on the following over our five-year appointment:

- whether the College can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

### **Value for money**

**28.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on the following over our five-year appointment:

- whether the College can provide evidence that it is demonstrating value for money in the use of its resources
- whether the College can demonstrate that there is a clear link between money spent, output and outcomes delivered
- whether the College can demonstrate that outcomes are improving
- whether there is sufficient focus on improvement and the pace of it.

### **Independence and objectivity**

**29.** Auditors appointed by the Accounts Commission or Auditor General 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. 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 Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

**30.** The engagement lead for Edinburgh College is Ursula Lodge, 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 Edinburgh College.

## Quality control

**31.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**32.** 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 supporting 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 Scotland (ICAS) have been commissioned to carry out external quality reviews.

**33.** 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: The audit team

The core audit team consists of the following staff and might be supported at peak times with additional resources to ensure key reporting deadlines are met:

## Ursula Lodge

### Senior Audit Manager

✉ [ulodge@audit-scotland.gov.uk](mailto:ulodge@audit-scotland.gov.uk) ☎ 0131 625 1746

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Ursula is the appointed independent auditor established under the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice and guided by the auditing profession's ethical guidance.

Ursula is a Senior Audit Manager in ASG with a mixed central government and further education portfolio including Skills Development Scotland, VisitScotland and Edinburgh College.

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## Brian Battison

### Audit Manager

✉ [bbattison@audit-scotland.gov.uk](mailto:bbattison@audit-scotland.gov.uk) ☎ 0131 625 1708

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Brian will have overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly planned, resourced and concluded within time.

Brian has a broad range of audit experience in the public sector and has been involved in the audit of many types of public bodies including Health Boards, Scottish Government Directorates, Agencies, Non-Departmental Public Bodies and Local Government.

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## Chris McClelland

### Senior Auditor

✉ [cmcclelland@audit-scotland.gov.uk](mailto:cmcclelland@audit-scotland.gov.uk) ☎ 0131 625 1808

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Chris will lead the audit team and will be the main contact for the audit.

Chris has worked with Audit Scotland since 2014 and is a qualified CA. In his time with Audit Scotland he has been involved in a range of audits across the Scottish public sector. This is his second year working on the audit of Edinburgh College.

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# Edinburgh College

## Annual Audit Plan 2018/19

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