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Appendix A – Key communication points

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This document is to be regarded as confidential to New College Lanarkshire. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance by the Board of Management. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.
Dear Members,

Audit Strategy Memorandum – Year ending 31 July 2019

We are pleased to present our Audit Strategy Memorandum for the audit of New College Lanarkshire for the year ending 31 July 2019. As a Regional Strategic Body, New College Lanarkshire produces regional consolidated financial statements, this memorandum refers to the audit of New College Lanarkshire as a single entity and as a Regional Strategic Body.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing New College Lanarkshire which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please do not hesitate to contact me.

Yours faithfully

Lucy Nutley
Mazars LLP
1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement
We are appointed by the Auditor General for Scotland to perform the external audit of New College Lanarkshire for the year to 31 July 2019. The Lanarkshire Colleges Order 2014 designates the Board of New College Lanarkshire as the Regional Strategic Body (RSB) for Lanarkshire – known as the Lanarkshire Board. In August 2016, the Scottish Funding Council awarded fully fundable status to New College Lanarkshire for the Region. As a consequence of this, and determinations of accounting standards, the Lanarkshire Board have determined that consolidated regional accounts should be prepared. Therefore, our audit is of the New College Lanarkshire consolidated regional accounts which comprise New College Lanarkshire, South Lanarkshire College and Amcol Scotland Limited. This is our third year of appointment.

Responsibilities
Our responsibilities, principally derived from the Code of Audit Practice ('the Code') issued by Audit Scotland, are outlined below.

- **Audit opinion**
  We are responsible for forming and expressing an opinion on the regional financial statements.
  The Board of Management is responsible for the assessment of the College’s ability to continue as a going concern. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of the disclosures made.

- **Regularity opinion**
  We are required to form and express an opinion on whether the College has, in all material respects, incurred expenditure and income in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

- **Wider scope work**
  The Code requires us to conclude and make a judgement on the four dimensions of wider scope work. The four dimensions are Financial Sustainability, Financial Management, Governance and Transparency, and Value for Money.

- **Opinion on other matters**
  We are required to express an opinion on whether the audited part of the Remuneration and Staff Report, and the Governance Report have been properly prepared in line with relevant legislation and directions. We also express an opinion on whether the Performance Report is consistent with the audited financial statements.

Our audit does not relieve management or the Board of Management, as those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.
2. YOUR AUDIT ENGAGEMENT TEAM

- **Lucy Nutley** – Director
  - Lucy is the Engagement Lead for the audit and will be the key point of contact for the Audit Committee. She will have overall responsibility for delivering a high quality audit to the College. Lucy will be responsible for the opinions given on the financial statements and will liaise with the Principal, Vice Principal: Resources and the Finance Team. She will attend Audit Committee meetings, and where appropriate, Board meetings.
  - [Lucy.nutley@mazars.co.uk](mailto:Lucy.nutley@mazars.co.uk)

- **Ruth Holland** – Manager
  - Ruth will manage and coordinate the audit and be the key point of contact for the Vice Principal: Resources and the Finance Team, as well as liaising with Internal Audit. Ruth will oversee completion of audit work to a high standard and attend Audit Committees as appropriate.
  - [Ruth.holland@mazars.co.uk](mailto:Ruth.holland@mazars.co.uk)

- **Hayley Kerr** – Audit Team Leader
  - Hayley will be responsible for leading the onsite work, reviewing the work of more junior members of the team and performing the audit work in more specialised areas.
  - [Hayley.kerr@mazars.co.uk](mailto:Hayley.kerr@mazars.co.uk)

- **Alyce Russell** – Audit Senior
  - Alyce will assist Hayley in all areas of the audit work, and will take the lead in various areas of the financial statements.
  - [Alyce.russell@mazars.co.uk](mailto:Alyce.russell@mazars.co.uk)
3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope
Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach
Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.

The diagram outlines the following key reporting and communication outputs:
- Final review and disclosure checklist of financial statements
- Final audit file review
- Agreeing content of Letter of Representation
- Reporting to those charged with governance
- Reviewing post balance sheet events
- Annual Audit Report
- Independent Auditor’s report
- Updating our understanding of the College
- Initial opinion and wider scope risk assessments
- Development of our audit strategy
- Agreement of timetables
- Lessons learned from 2017/18 audit
- Preliminary analytical procedures
- Audit Strategy Memorandum
- Review of draft annual report and accounts
- Reassessment of audit strategy
- Delivering our planned audit testing
- Audit of consolidation procedures
- Continuous communication on emerging issues
- Clearance meeting
- Regular update meetings with the finance team
- Documenting systems and controls
- Walkthrough procedures
- Controls review, including general and application IT controls
- Audit progress report to Audit Committee
3. **AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)**

**Reliance on internal audit**
Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

**Management’s and our experts**
Management makes use of experts in specific areas when preparing the College’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

<table>
<thead>
<tr>
<th>Items of account</th>
<th>Management’s expert</th>
<th>Planned audit approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined benefit pension liability and associated accounting entries and disclosures required by FRS 102.</td>
<td>Actuary – Hymans Robertson</td>
<td>We will consider the reasonableness of the actuarial assumptions made, referring to our in-house pension scheme experts.</td>
</tr>
</tbody>
</table>
4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

Significant risk: A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.

Enhanced risk: An enhanced risk is an area of higher assessed risk of material misstatement (‘RMM’) at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk: This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the audit risk continuum below, highlights those risks which we deem to be significant and other enhanced risks. We have summarised our audit response to these risks on the next page.

The table below shows the risks and their categorisation:

<table>
<thead>
<tr>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Management override of control</td>
</tr>
<tr>
<td>2  Revenue recognition</td>
</tr>
<tr>
<td>3  Expenditure recognition</td>
</tr>
</tbody>
</table>
4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

<table>
<thead>
<tr>
<th>Description of risk</th>
<th>Planned response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 Management override of controls</strong></td>
<td>We will address this risk through performing audit work over:</td>
</tr>
<tr>
<td>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</td>
<td>• Accounting estimates impacting amounts included in the financial statements;</td>
</tr>
<tr>
<td></td>
<td>• Consideration of identified significant transactions outside the normal course of business; and</td>
</tr>
<tr>
<td></td>
<td>• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements</td>
</tr>
<tr>
<td><strong>2 Revenue recognition</strong></td>
<td>We will address this risk through performing audit work over:</td>
</tr>
<tr>
<td>Revenue</td>
<td>• the design and implementation of controls management has in place to ensure income is recognised in the correct period;</td>
</tr>
<tr>
<td>There is a presumption under International Standards on Auditing that there is a significant risk of fraud and error in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements as to when income for services should be recognised.</td>
<td>• cash receipts around the year end to ensure they have been recognised in the right year; and</td>
</tr>
<tr>
<td>The risk above applies only to the non-grant income generated by the College. The risk has been rebutted in relation to the grant income received by the College, given the highly regulated nature and therefore, low inherent risk of this income.</td>
<td>• the judgements made by management in determining when income for services is recognised.</td>
</tr>
<tr>
<td></td>
<td>• for major grant income, obtaining counterparty confirmation.</td>
</tr>
<tr>
<td><strong>3 Expenditure recognition</strong></td>
<td>We will address the risk through performing audit work over:</td>
</tr>
<tr>
<td>For public sector organisations, the same risk applies to the recognition of non-payroll expenditure and contractual obligations. The pressure to manage expenditure, especially when dealing with costs that are not specifically funded, increases the risk surrounding fraudulent financial reporting of expenditure.</td>
<td>• the design and implementation of controls management has in place to ensure expenditure is recognised in the correct period;</td>
</tr>
<tr>
<td></td>
<td>• testing of non-payroll expenditure around the year end to ensure transactions are recognised in the correct year;</td>
</tr>
<tr>
<td></td>
<td>• testing material year end payables, accruals and provisions; and</td>
</tr>
<tr>
<td></td>
<td>• reviewing judgements about whether the criteria for recognising provisions are satisfied.</td>
</tr>
</tbody>
</table>
**4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)**

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

<table>
<thead>
<tr>
<th>Area of management judgement</th>
<th>Planned response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 Valuation of pension liabilities</strong></td>
<td>We intend to consider:</td>
</tr>
<tr>
<td>The College makes contributions to two pension schemes – the Scottish Teachers Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). While both are defined benefit schemes, it is not possible to identify the College’s share of the underlying assets and liabilities in the STSS and it is therefore accounted for as a defined contribution scheme. The College’s share of the SPF’s underlying assets and liabilities is identifiable and a net liability is recognised in the accounts. Given the scale of the liability recognised in the accounts, a misstatement in the reported position could be material to the financial statements.</td>
<td></td>
</tr>
<tr>
<td><strong>2 Valuation of land and buildings</strong></td>
<td>We will undertake a range of substantive procedures including:</td>
</tr>
<tr>
<td>The College holds a significant level of land and buildings – reporting a net book value of £98.8m as at 31 July 2018. The Region held land and buildings with a net book value of £133.2m at 31 July 2018. In line with the requirements of the Government Financial Reporting Manual, the College has adopted a formal revaluation policy of an external valuation every five years, with a desktop, interim valuation performed during the five year period. As the interim valuation was performed at 31 July 2018, no revaluation is planned in the current year. South Lanarkshire College also have no revaluation planned in the current year. The College policy meets the requirement of the FE SORP that assets are valued sufficiently regularly so that the carrying value of the asset is not materially different from its fair value. The College is required to assess on an annual basis whether there are indicators of impairment to assets at the reporting date. Given the significance of the value of fixed assets held, a misstatement in the valuation could be material to the financial statements.</td>
<td></td>
</tr>
<tr>
<td><strong>3 Regional financial statements consolidation process</strong></td>
<td>We will undertake a range of substantive procedures including:</td>
</tr>
<tr>
<td>Regional financial statements are prepared which comprise the financial statements of New College Lanarkshire, South Lanarkshire College and Amcol Scotland Limited. Management are required to make judgements around the consolidation of the transactions and balances of South Lanarkshire College and Amcol Scotland Limited.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Area of focus
Enhanced risks can arise from significant events occurring during the period under review. The College Principal has announced his resignation and will leave the College in August/September 2019. While not in the audit year, this will impact on the reporting time frame of the audit. This has been assessed as an area of audit focus due to the need for oversight of governance that is required to be reported upon in the governance statement and arrangements to be put in place to ensure the Accountable Officer that signs the accounts is fully aware of governance arrangements at the college.

<table>
<thead>
<tr>
<th>Area of focus</th>
<th>Planned response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Governance changes</td>
<td>The Principal has announced his resignation from New College Lanarkshire and will be leaving in August/September 2019.</td>
</tr>
<tr>
<td></td>
<td>The Chair of the Board has resigned from New College Lanarkshire. An Interim Chair continues to be in post. A current recruitment exercise has begun, with the aim of appointing a new Chair by September 2019.</td>
</tr>
<tr>
<td></td>
<td>We will consider the procedures in place to ensure the continued governance of the college concerning:</td>
</tr>
<tr>
<td></td>
<td>• arrangement put in place to ensure an adequate handover of governance arrangements that give sufficient assurance to newly appointed Chair and Principal surrounding the 2018/19 regional financial statements.</td>
</tr>
<tr>
<td></td>
<td>• arrangements put in place for an Accountable Officer signature in the financial statements; and</td>
</tr>
<tr>
<td></td>
<td>• whether the disclosures required in the financial statements in relation to the retiring officer, including remuneration, are complete and appropriate.</td>
</tr>
</tbody>
</table>
5. WIDER SCOPE WORK

Our approach to wider scope work

We are required to conclude and make a judgement on the four dimensions of wider scope work. We set out below the work that we intend to perform to reach these judgements.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Description</th>
<th>Our planned approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Extending our work on the going concern assumption in the financial statements looking forward two to five years from the reporting date, reviewing and assessing the college’s arrangements for financial planning and affordable and sustainable service delivery</td>
<td></td>
</tr>
<tr>
<td>sustainability</td>
<td>We intend to consider:</td>
<td>• the financial planning system in place for short, medium and long term periods&lt;br&gt;• the adequacy and accuracy of financial reporting arrangements&lt;br&gt;• the reasonableness of affordability assumptions made in financial planning</td>
</tr>
<tr>
<td>Financial</td>
<td>Financial management is concerned with financial capacity, sound budgetary processes and whether the college’s control environment and internal controls are operating effectively</td>
<td></td>
</tr>
<tr>
<td>management</td>
<td>We intend to consider:</td>
<td>• the effectiveness of internal control arrangements&lt;br&gt;• whether the college’s budgetary control system is timely and accurate&lt;br&gt;• whether and how the college has assessed their financial capacity and skills&lt;br&gt;• whether the college’s arrangements for the prevention and detection of fraud and corruption are appropriate</td>
</tr>
<tr>
<td>Governance</td>
<td>Governance and transparency covers the effectiveness of scrutiny and governance arrangements in place at the college, leadership and decision-making and transparent reporting of financial and performance information</td>
<td></td>
</tr>
<tr>
<td>and transparency</td>
<td>We intend to consider:</td>
<td>• whether the governance framework at the college is operating effectively, considering if there is appropriate scrutiny and challenge of key decisions&lt;br&gt;• the quality and timeliness of information supplied to those charged with governance&lt;br&gt;• risk management arrangements</td>
</tr>
<tr>
<td>Value for money</td>
<td>Value for money concerns using resources effectively and continually improving services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>We intend to consider:</td>
<td>• the college’s evidence that they are providing value for money&lt;br&gt;• the focus on improving value for money and the pace of change at the college</td>
</tr>
</tbody>
</table>
### Identified significant risks to our wider scope work

We have also considered, as part of our planning, whether there are significant risks that would impact in any of the four areas of our wider scope work that require special audit consideration. At the planning stage we have identified two significant risks, as detailed below. Should our assessment of risk, or our planned approach to address the risk change during the course of the audit, we will report this to the Audit Committee.

<table>
<thead>
<tr>
<th>Significant risk</th>
<th>Planned response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Financial sustainability</strong></td>
<td>We intend to consider:</td>
</tr>
<tr>
<td>- Our 2017/18 Annual Audit Report highlighted that a 5 year Lanarkshire Business Plan had been prepared in close collaboration with the SFC. This is predicting a cumulative operating deficit of £2.2m over the 5 years to 2022/23, and a cumulative adjusted operating deficit of £545k. We understand that the Business Plan was updated in November 2018 and shows a slightly improved position. The Lanarkshire Business Plan identifies the efficiency savings and longer term cost saving measures which are planning to implement to achieve the required costs savings.</td>
<td></td>
</tr>
<tr>
<td>- The plan includes assumptions of reduced support staff costs (through natural turnover, redeployment and ultimately, further voluntary severance schemes), by reducing numbers by 21.5 FTE over the course of the plan. This is intended to achieve a cumulative cost saving of £745k.</td>
<td></td>
</tr>
<tr>
<td>- There is an expectation of reducing teaching staff by 62.5 FTE over the plan which should generate cumulative cost savings of £3.4m.</td>
<td></td>
</tr>
<tr>
<td>- They aim to increase non-SFC income by focusing on generation of income by access and use of the college assets, providing commercially viable education, training delivery, expanding SDS industry sector and partner funding of apprenticeships and opportunities to access the Flexible Workplace Development Fund (FWDF).</td>
<td></td>
</tr>
<tr>
<td>- On 21 December 2018 the Principal received a letter from the SFC indicating that it would support the Lanarkshire Business Plan. It has already awarded funding for the VS scheme in 2018/19 of £645k, and the letter noted that it stood ready to award the additional £2.6m transformation funding in March 2019 to support the delivery of the plan.</td>
<td></td>
</tr>
<tr>
<td>- We reported in our Annual Audit Report that The Lanarkshire Business Plan and its activities would be monitored and reported through Board committees which will have oversight. A Budget Monitoring Group was set up and would review specific areas of the budget and management accounts on a regular basis.</td>
<td></td>
</tr>
<tr>
<td>- The Principal, Martin McGuire and Vice Principal: Curriculum, Planning and Performance, Derek Smeall will be leaving the College in the coming months. They have both been instrumental in the development and implementation of the plan, and the College will need to ensure that the arrangements for their cover/replacements ensure that focus on the plan does not diminish.</td>
<td></td>
</tr>
<tr>
<td>- In this period of change, inconsistent oversight, or potentially a lack of oversight could lead to an unfavourable diversion from the financial plan, thus we consider the risk to financial sustainability remains.</td>
<td></td>
</tr>
</tbody>
</table>
5. WIDER SCOPE WORK (CONTINUED)

Identified significant risks to our wider scope work
We have also considered, as part of our planning, whether there are significant risks that would impact in any of the four areas of our wider scope work that require special audit consideration. At the planning stage we have identified two significant risks, as detailed below. Should our assessment of risk, or our planned approach to address the risk change during the course of the audit, we will report this to the Audit Committee.

<table>
<thead>
<tr>
<th>Significant risk</th>
<th>Planned response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2 Governance and transparency</strong></td>
<td><strong>We intend to consider:</strong></td>
</tr>
<tr>
<td><strong>Board and Committees</strong></td>
<td>- steps being taken to recruit new Board members and Audit Committee members;</td>
</tr>
<tr>
<td>In the year to July 2019, there have been several Board resignations, including the Chair of the Board. New members have been appointed, but the Board remains three members short of its complement.</td>
<td>- steps being taken in recruitment of new senior staff;</td>
</tr>
<tr>
<td>Changes have been made to a number of Committees to ensure quoracy in the coming months.</td>
<td>- interim measures in place to ensure governance of the College is being assured; and</td>
</tr>
<tr>
<td>As previously mentioned, the Principal and Vice Principal: Curriculum, Planning and Performance have resigned and will be leaving their posts in the coming months.</td>
<td>- any communication with SFC surrounding the situation.</td>
</tr>
<tr>
<td>This large upheaval in senior positions and the Board indicates a significant governance risk in relation to the overall operation and oversight of the College.</td>
<td></td>
</tr>
<tr>
<td><strong>Regional arrangements</strong></td>
<td><strong>We intend to consider:</strong></td>
</tr>
<tr>
<td>Our 2017/18 Annual Audit Report noted that New College Lanarkshire, as the Regional Strategic Body for Lanarkshire had planned to perform a review of regional financial governance arrangements to identify potential improvements to the governance framework in place, but this had not yet taken place.</td>
<td>- progress and outcomes of the financial governance review; and</td>
</tr>
<tr>
<td>The review was set to consider the following areas:</td>
<td>- the outcomes and any recommendations made by Audit Scotland as part of Scotland’s Colleges 2019 (the annual review of the sector by Audit Scotland).</td>
</tr>
<tr>
<td>- Structural arrangements – including oversight, clarity of arrangements and requirements of the legal framework;</td>
<td></td>
</tr>
<tr>
<td>- Assurance – including assurances to the regional Accountable Officer; and</td>
<td></td>
</tr>
<tr>
<td>- Future planning – including what the framework should be.</td>
<td></td>
</tr>
</tbody>
</table>
6. FEES FOR AUDIT AND OTHER SERVICES

Fees for audit and other services

Our fees for the audit of the financial statements and for any other services are outlined in the tables below.

<table>
<thead>
<tr>
<th>Service</th>
<th>2018/19 proposed fee £</th>
<th>2017/18 final fee £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditor remuneration</td>
<td>41,510</td>
<td>37,120</td>
</tr>
<tr>
<td>Pooled costs</td>
<td>2,190</td>
<td>2,380</td>
</tr>
<tr>
<td>Contribution to Audit Scotland costs</td>
<td>2,300</td>
<td>2,060</td>
</tr>
<tr>
<td><strong>Total Fee</strong></td>
<td><strong>46,000</strong></td>
<td><strong>41,560</strong></td>
</tr>
</tbody>
</table>

Audit Scotland planning guidance allows the auditor to increase the auditor remuneration by to 10%. We have applied that increase this year in light of the additional work required from the Wider Scope significant risks.

The fees outlined above are provided on the basis that we will receive a high-quality set of draft financial statements, supported by good working papers. Should we be required to perform significant levels of additional audit work, or face significant delay ins in our audit, we will discuss the impact of this on our proposed fee with management.
7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council’s Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Lucy Nutley in the first instance.

Prior to the provision of any non-audit services, Lucy Nutley will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Annual Audit Report.
8. MATERIALITY AND MISSTATEMENTS

Definitions
Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Summary of initial materiality thresholds

<table>
<thead>
<tr>
<th>Threshold</th>
<th>Initial threshold College</th>
<th>Initial threshold Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall materiality</td>
<td>£1,086,000</td>
<td>£1,451,000</td>
</tr>
<tr>
<td>Performance materiality</td>
<td>£869,000</td>
<td>£1,161,000</td>
</tr>
<tr>
<td>Trivial threshold for errors to be reported to the Audit Committee</td>
<td>£33,000</td>
<td>£44,000</td>
</tr>
<tr>
<td>Specific materiality for Remuneration and Staff Report</td>
<td>£500</td>
<td>£500</td>
</tr>
</tbody>
</table>

Materiality
Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We consider that gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We expect to set a materiality threshold at 2% of gross expenditure (£1,086k for the College and £1,451k for the Region).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.
8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Performance Materiality
Our audit testing is based on a level of performance materiality, which is a percentage of overall materiality, but also dependent on the level of inherent risk assessed on the area being tested. It is the level we use to calculate our sample sizes, and is our acceptable difference in any substantive analytical procedures. It is lower than overall materiality as it helps to reduce the risk that the total of the uncorrected or undetected misstatements does not exceed materiality for the financial statements as a whole. It is based on between 50 – 80% of overall materiality depending on the risk level. Our initial assessment of performance materiality for the College is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality. This assessment will continue to be monitored throughout the audit.

Specific Materiality
We assess specific materiality if there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the users of the financial statements. Specific materiality focuses on the qualitative nature, as well as the size, of an item. It recognises that, in some circumstances, it may take a much smaller misstatement to influence the user of the financial statements.

We are required to provide an opinion as to whether the audited part of the Remuneration and Staff Report has been properly prepared. Given the sensitivity of the disclosures made in the Remuneration and Staff Report, we have assessed a specific materiality for this work at £500, being the level that would impact rounding for figures shown to the nearest £’000.

Misstatements
We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £33,000 for the College, and £44,000 for the Region, based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Lucy Nutley.
APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

<table>
<thead>
<tr>
<th>Required communication</th>
<th>Audit Strategy Memorandum</th>
<th>Annual Audit Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our responsibilities in relation to the audit of the financial statements and our wider responsibilities</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Planned scope and timing of the audit</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Significant audit risks and areas of management judgement</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Our commitment to independence</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Responsibilities for preventing and detecting errors</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Materiality and misstatements</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Fees for audit and other services</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Significant deficiencies in internal control</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Significant findings from the audit</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Significant matters discussed with management</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Our conclusions on the significant audit risks and areas of management judgement</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Summary of misstatements</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Management representation letter</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Our proposed draft audit report</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>