

# Edinburgh College

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

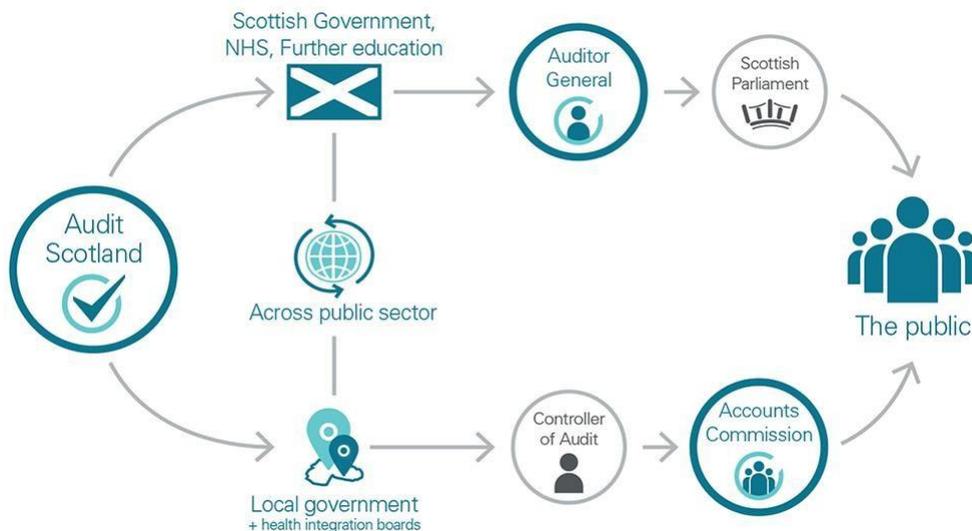
Prepared for Edinburgh College

June 2020

## 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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# Contents

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Risks and planned work	4
Audit scope and timing	9

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# Risks and planned work

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1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts 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 significant risk areas for our 2019/20 audit of the College. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).
5. We undertook the majority of our planning work prior to the Covid-19 pandemic. There are currently a range of uncertainties related to Covid-19 with the full extent of its impact on Edinburgh College and our approach to audit not yet known. As a result, there may be changes to audit risks outlined in [Exhibit 1](#) and consequently to our audit approach and the timing of our audit. We will continue our regular engagement with management to discuss this and how we can work together to respond to this unprecedented situation and the associated uncertainties.

## Exhibit 1

### 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statement risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>Auditing Standard (ISA 240) requires that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent 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 and judgements</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>
<p><b>2 Risk of material misstatement caused by fraud in income recognition</b></p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income where income streams are significant. There is a risk that income may be misstated resulting in a material misstatement in the financial statements.</p> <p>In 2018/19, Edinburgh College recorded income of £67.9 million, of which £53.4 million (79 per cent) was provided by the Scottish Funding Council (SFC) and £14.5 million (21 per cent) from other sources. SFC funding is reliant on accurate recording of student activity targets, and the level of income received from other sources is significant.</p> <p>The extent and nature of the College's income streams means that there is an inherent risk of fraud.</p>	<p>Effective anti-fraud and whistleblowing arrangements in place.</p> <p>Financial regulations and procedures outline key controls over systems and processes.</p> <p>Ongoing monitoring of income by the SFC.</p> <p>Adequate segregation of duties and effective budget monitoring arrangements including monitoring of income.</p> <p>Internal audit's annual review of financial controls.</p>	<ul style="list-style-type: none"> <li>• Review of the College's anti-fraud arrangements</li> <li>• Walk-through of controls over receivables</li> <li>• Review of the reconciliation of the SFC grant income to the funding allocation</li> <li>• Ongoing review of budget monitoring reports</li> <li>• Analytical procedures on income streams</li> <li>• Detailed testing of revenue transactions focusing on the areas of greatest risk</li> <li>• Consideration of internal audit's review of financial controls</li> </ul>
<p><b>3 Risk of material misstatement caused by fraud in expenditure</b></p> <p>Most public-sector bodies are net spending bodies and therefore the risk of fraud is more likely to occur in expenditure.</p> <p>In 2018/19, Edinburgh College recorded gross expenditure of £74.1 million with an excess of expenditure over income of £6.2 million. The College is required to maintain annual</p>	<p>Effective anti-fraud and whistleblowing arrangements in place, including involvement in the National Fraud Initiative (NFI).</p> <p>Financial regulations and procedures outline key controls over systems</p>	<ul style="list-style-type: none"> <li>• Review of the College's anti-fraud arrangements including its review of NFI matches</li> <li>• Walk-through of controls over payables</li> <li>• Ongoing review of budget monitoring reports</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>savings targets and achieve a break-even "adjusted operating position".</p> <p>The extent and nature of the College's expenditure means that there is an inherent risk of fraud.</p>	<p>and processes, including in procurement.</p> <p>Ongoing monitoring of expenditure by the SFC.</p> <p>Adequate segregation of duties and effective budget monitoring arrangements including monitoring of expenditure.</p> <p>Internal audit's annual review of financial controls and procurement and contract management.</p>	<ul style="list-style-type: none"> <li>Analytical procedures on expenditure streams</li> <li>Detailed testing of expenditure transactions focusing on the areas of greatest risk</li> <li>Review of accruals and provisions</li> <li>Consideration of internal audit's review of financial controls and procurement and contract management</li> </ul>

#### 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
- pensions
- provisions.

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

Reliance on professional non-current asset valuers.

Controls are in place to ensure accurate provision of data to actuaries.

Pension figures are derived from valuation calculations prepared by actuaries.

The finance team reviews the actuary information to ensure data and assumptions used are reasonable.

Sound arrangements are in place for identifying and assessing accounting provisions.

- Review of accounting estimates and policies to ensure they are appropriate and properly applied
- Confirm pension valuations in actuarial report and in non-current assets valuation reports are correctly reflected within the 2019/20 financial statements
- Completion of 'review of the work of an expert' in respect of the actuary including a review of actuarial assumptions
- Testing of pension disclosures, including data that Edinburgh College provides to actuaries
- Testing of provisions and related disclosures including the provision of accommodation occupancy costs

#### Wider dimension risks

##### 6 Financial management

The College is projecting a break-even 'adjusted operating position' for 2019/20 but it needs to achieve savings of £1.2 million to break even.

There is a risk that the College does not achieve the break-even position in 2019/20.

Regular and timely production of accurate monthly management accounts reviewed by budget holders and senior management.

- Ongoing monitoring of the financial reports provided to the board/committees showing progress of actual spend against budget and comparison with the year-end results in the financial statements

	Audit Risk	Source of assurance	Planned audit work
		<p>Risk register regularly monitored by appropriate committees and board.</p> <p>Regular monitoring meetings with SFC.</p>	<ul style="list-style-type: none"> <li>• Ongoing monitoring of the College's achievement of savings and student credit targets</li> <li>• Cut-off testing to confirm expenditure and income have been accounted for in the correct financial year</li> </ul>

## 7 Financial sustainability

The College's five-year financial plan from 2019/20 to 2023/24 shows that savings of £6.2 million will be required for the College to achieve its projected break-even "adjusted operating position" in each of the five years. It also highlights a number of medium-term financial challenges such as the projected shortfall in commercial income, repayment of SFC loan, cost of living and pay harmonisation and increasing employer's pension contributions. There is also a range of uncertainties associated with EU withdrawal and with the impact of Covid-19. The College identified these risks in its risk register with similar financial pressures seen across the college sector as a whole.

There is a risk that the College's financial position worsens, and this affects its cash-flows and operations.

Risk register regularly monitored by appropriate committees and the board.

Board and Policy and Resources Committee oversight of financial reports to keep projected savings under review.

Regular monitoring meetings with SFC.

Development of an overarching longer-term financial strategy to help identify challenges with funding and savings at an early stage.

Board's consideration of implications of EU withdrawal.

- Review of the College's five-year financial plan including ongoing monitoring of progress with achievement of financial targets and planned savings
- Monitoring of the College's progress with development of longer-term financial strategy including the assumptions used
- Assessment of the College's response to EU withdrawal

Source: Audit Scotland

## Reporting arrangements

6. 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).

7. 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 prior to the publication of final reports.

8. 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 Board of Management 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

### 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	20 May 2020	27 May 2020
Management Report	20 May 2020	27 May 2020
Annual Audit Report	11 November 2020	18 November 2020
Independent Auditor's Report	As soon as possible following the Board meeting in December 2020	N/A

Source: Audit Scotland

### Audit fee

9. The proposed audit fee for the 2019/20 audit of Edinburgh College is £30,100 [£30,100 in 2018/19]. 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 annual accounts with a complete working papers package on 21 September 2020.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, 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 & Risk Assurance Committee and Board of Management

11. 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.

12. The audit of the annual accounts does not relieve management or the Audit and Risk Assurance Committee, as those charged with governance, of their responsibilities.

#### Appointed auditor

13. 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.

14. 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.

# Audit scope and timing

## Annual accounts

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 the financial statements, as to:

- whether they give a true and fair view of the state of affairs of Edinburgh College as at 31 July 2020 and of its income and expenditure
- whether they have been properly prepared in accordance with the financial reporting framework
- the regularity of income and expenditure.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the annual accounts

17. We also review and report on statutory other information published within the annual accounts including the performance report, accountability report including the corporate governance statement, and the remuneration and staff 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 review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## 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 Edinburgh College are set out in [Exhibit 3](#).

## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess 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 2020 based on the projected outturn in the December 2019 management accounts.	£685,000
<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 50% of planning materiality.	£343,000
<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

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

22. There are currently a range of uncertainties related to the Covid-19 pandemic with the full extent of its impact on Edinburgh College and Audit Scotland and our approach to audit not yet known. The timetable is therefore subject to potential changes due to the ongoing developments and government restrictions and any impact these restrictions may have on the delivery of the unaudited financial statements and the completion of the annual audit.

## Exhibit 4

### Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	21 September 2020
Latest date for final clearance meeting with the Finance and Chief Operating Officer	30 October 2020
Agreement of audited unsigned annual report and accounts Issue of Annual Audit Report to those charged with governance	11 November 2020
Issue of Letter of Representation and proposed independent auditor's report	11 November 2020
Independent auditor's report signed	By 31 December 2020

## Internal audit

23. 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 the main requirements of the 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.

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

### Using the work of internal audit

25. 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.

26. We plan to consider the findings of the work of internal audit such as its review of procurement and contract management, performance management follow-up, cyber security and commercial income to minimise duplication of effort and ensure the total resource is used efficiently.

## Audit dimensions

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

### Exhibit 5 Audit dimensions



Source: Code of Audit Practice

## Financial management

28. 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 arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control system in communicating accurate and timely financial performance can be demonstrated
- how the College has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption. This will include a high-level assessment of the arrangements for preventing fraud within the College's procurement activities.

### **Financial sustainability**

29. 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 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 carry out work 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.

### **Governance and transparency**

30. 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:

- 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.

31. We will also comment in our 2019/20 annual audit report on how the College adjusted to the Covid-19 pandemic.

### **Value for money**

32. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the College can demonstrate progress in developing its performance reporting arrangements. We will also carry out a high-level review of the College's equality arrangements and how the College demonstrates compliance with the Equality Act 2010.

### **Independence and objectivity**

33. 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.

34. The engagement lead for Edinburgh College is Gordon Smail, Audit Director. 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

35. 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.

36. 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.

37. 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.

# Edinburgh College

## Annual Audit Plan 2019/20

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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