

Edinburgh College

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Edinburgh College
May 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Edinburgh College. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and financial statements including the Performance Report, the Corporate Governance Report and the Remuneration and Staff Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- review Edinburgh College's participation in the National Fraud Initiative.

Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. 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 will help Edinburgh College promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit Risk and Assurance Committee (ARAC) and actively participate in discussions.

Respective responsibilities of the auditor and Edinburgh College

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Edinburgh College. Key responsibilities are summarised below.

Auditor responsibilities

6. 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.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and financial statements. 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.

Edinburgh College responsibilities

8. Edinburgh College is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, Edinburgh College has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Edinburgh College are set out in [Exhibit 1](#).

Exhibit 1 2021/22 Materiality levels for Edinburgh College

Materiality	Amount
Planning materiality – 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 2022 based on the latest financial forecasts.	£0.724 million
Performance materiality – 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 assessed performance materiality at 65% of planning materiality.	£0.471 million
Reporting threshold (ie clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£36,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of Edinburgh College, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>2. Estimates and judgements: valuation of land and buildings</p> <p>Edinburgh College held land and buildings with a NBV of £160.0 million as at 31 July 2021, with land and buildings revaluated on a five-year cycle. A material uncertainty clause was included in the latest in revaluation in 2020 due to the impact of Covid-19 on the property market at that time.</p> <p>In 2020/21 the valuer confirmed that the values of the College's land and buildings as at 31 July 2020 remained correct and fair, but advised that buildings should be indexed by 5% that year due to property market changes. This resulted in a material adjustment of £7.0 million.</p>	<p>Discussions to be held with Avison Young (AY) to decide whether the college needs to carry out an interim valuation as at 31 July 2022. If it is determined that there is a material movement on the L&B valuation since 31 July 2021, a report will be requested from AY for this purpose. Any changes will be reviewed against available information on current L&B movements before any adjustments are made to the accounts.</p>	<p>accounting estimates compared to the prior year.</p> <ul style="list-style-type: none"> • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments. <hr/> <ul style="list-style-type: none"> • Assess the approach the College has adopted for the valuation of land and buildings. • Assess the College's assumptions for the valuation of land and buildings and the adequacy of the disclosures in its financial statements. • Completion of 'review of the work of an expert' in respect of the property valuer. • Test the reconciliation between the financial ledger and the property asset register to ensure that any in- year valuation movements are correctly accounted for.
<p>3. Estimates and judgements: valuation of retirement benefit obligations</p> <p>Edinburgh College is a member of the Lothian pension fund (i.e. the local government pension scheme) and accounts for it under the relevant accounting standard (FRS 102). At 31 July 2021 the</p>	<p>Controls are in place to ensure accurate provision of data to actuary. The finance team reconcile actuarial reports received from LPF to payroll information to confirm that there are no errors. The finance team reviews the actuarial information to</p>	<ul style="list-style-type: none"> • Review of information provided by the College to its actuary. • Completion of 'review of the work of an expert' in respect of the actuary including a review of actuarial assumptions. • Review evidence confirming that the College's management has assessed the estimate provided by its actuary.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>obligation was £43.5million. The present value of the retirement (pension) obligations depends on a number of factors that are determined on an actuarial basis underpinned by a series of assumptions. There is a risk that errors in the information provided to the actuary or in the underlying assumptions, or late information, can result in a material misstatement.</p>	<p>ensure data and assumptions used are reasonable.</p>	<ul style="list-style-type: none"> • Testing of pension disclosures in the financial statements, including disclosures in the key estimates and judgements note.

Source: Audit Scotland

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for Edinburgh College because the vast majority of income is from government sources, either the Scottish Funding Council or the Student Awards Agency Scotland. As such this can be verified.

16. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for Edinburgh College because the financial controls in place operate as expected.

17. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

18. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

19. The area of specific audit focus are:

- Provisions: The College holds a contract for the placement of student in residential accommodation. The contract includes clauses in relation to a guarantee of occupancy by the College. As there is uncertainty as to the timing and amounts of any payments required, management consider it to be onerous. The College has therefore made a provision for the estimated costs it is obliged to pay under the terms of the contract.

Audit risk assessment process

20. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

21. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

22. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

Exhibit 3

Audit dimensions



Source: Code of Audit Practice

23. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – 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).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

Audit dimension risks

24. We have identified audit risks in the areas set out in [Exhibit 5](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 5 2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial Sustainability</p> <p>In March 2022, the College's financial forecasts for 2022/23 to 2025/26 showed that cumulative savings of £5.1 million will be required to achieve its projected break-even 'adjusted operating position' in each of the four years.</p> <p>The Scottish Government provided a 'flat cash' settlement to the college sector for 2022/23. This resulted in a 3.6% reduction in the funding allocation for Edinburgh College, which included the additional funding provided in light of Covid-19 no longer available. In addition, the College faces a number of financial challenges such as rising energy costs and staff pay increases. The College is implementing a voluntary severance scheme and considering removing vacant posts to achieve further savings.</p> <p>There is a risk that the College is not able to achieve the forecast</p>	<p>The College provided an updated forecast to the P&R Committee in May 2022 showing an increased financial gap from £3.0 million to £3.6 million in 2022-23 due to hyper inflationary energy costs. A voluntary severance business case has been submitted to the SFC for voluntary severance support funding.</p>	<ul style="list-style-type: none"> • Review of the College's five-year financial plan including monitoring of progress with achievement of financial targets, planned savings and student credit targets • Monitoring of the College's progress with the development of a longer-term financial strategy, including the assumptions used • Review of the College's Financial Forecast Return for 2022/23-2024/25.

Description of risk	Sources of assurance	Planned audit response
savings and its financial position worsens as a result. This could impact its cash flows and operations.		

Source: Audit Scotland

25. In addition we also plan to monitor developments in cyber security through updates provided to the ARAC.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

26. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 6](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

27. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

28. 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 report and financial statements. We will provide the Edinburgh College and the 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 6 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	11 May 2022	25 May 2022
Independent Auditor's Report	9 November 2022	23 November 2022
Annual Audit Report	9 November 2022	23 November 2022

Source: Audit Scotland

Timetable

29. To support an efficient audit, it is critical that the timetable for producing the annual report and financial statements for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 7](#) that has been discussed with management.

30. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

31. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 7

Proposed annual report and financial statements timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and financial statements by those charged with governance	26 September 2022
Latest submission date for the receipt of the unaudited annual report and financial statements with complete working papers package.	26 September 2022
Latest date for final clearance meeting with the Director of Finance (or equivalent)	28 October 2022
Issue of Letter of Representation and proposed Independent Auditor's Report	9 November 2022
Agreement of audited and unsigned annual report and financial statements	9 November 2022
Issue of Annual Audit Report to those charged with governance.	9 November 2022
Signed Independent Auditor's Report	By 16 December 2022

Source: Audit Scotland

Audit fee

32. The proposed audit fee for the 2021/22 audit of Edinburgh College is £31,450 (2020/21: £30,840). In determining the audit fee, we have taken account of the risk exposure of the College, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

33. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and financial statements, the absence of adequate supporting working papers or being unable to take planned reliance from the work

of internal audit, 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.

Other matters

Internal audit

34. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

35. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We do plan to consider the findings of Internal Audit across a range of work including Credits/FES, Student Support Funds, Workforce Planning, Covid-19: Quality and Student Assessment, Development and Delivery of Digital Learning.

Independence and objectivity

36. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

37. The engagement lead (i.e. appointed auditor) for Edinburgh College is Stuart Nugent, 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

38. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

39. 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.

40. 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

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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