

A background image showing a group of students in a classroom. In the foreground, a young woman with glasses and a striped shirt is looking down at a tablet device. Behind her, a man in a checkered shirt and another student are also looking at their devices. The scene is brightly lit, suggesting a modern educational environment.

# Perth College

**Annual Audit Plan**

**Year ending 31 July 2022**

**Audit Committee**

**31 May 2022**

The EY logo, consisting of the letters 'EY' in a bold, black, sans-serif font. A yellow diagonal line is positioned above the 'Y'.

Building a better  
working world

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## About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Auditor General for Scotland has appointed us as external auditor of Perth College ("the College") for financial years 2016/17 to 2020/21. As a result of the impact of COVID-19 our appointment was extended by a further 12 months to include the financial year 2021/22. We undertake our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the College and is made available to the Auditor General for Scotland and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

## Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# 1. Executive summary

## Our key contacts:

**Stephen Reid**  
Partner  
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**Rachel Wynne**  
Manager  
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## Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as your external auditor.

## Purpose of this report

In accordance with the Public Finance and Accountability (Scotland) Act 2000, Audit Scotland appointed EY as the external auditor of Perth College (“the College”) for the five year period 2016/17 to 2020/21. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22.

This Annual Audit Plan, prepared for the benefit of College management and the Audit Committee, sets out our proposed audit approach for the audit of the financial year ending 31 July 2022, the sixth and final year of our appointment. In preparing this plan, we have updated our understanding of the College through planning discussions with management, review of relevant documentation and committee reports, and our general understanding of the environment in which the College is operating.

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the College employs best practice and where processes can be improved. We use these insights to form our audit recommendations to support the College in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. These are highlighted throughout our reporting together with our judgements and conclusions regarding arrangements.

After consideration by the College’s Audit Committee, the plan is provided to Audit Scotland and published on their website.

## Scope and Responsibilities

This Annual Audit Plan covers the work that we plan to perform to provide you with our opinion on whether the Group and College financial statements (the financial statements) give a true and fair view of the Group and College’s affairs as at 31 July 2022 in accordance with applicable law and the financial reporting framework. We also report on the regularity of transactions, as required by the Scottish Funding Council.

We undertake our audit in accordance with the Code of Audit Practice (‘the Code’), issued by Audit Scotland in May 2016; International Standards on Auditing (UK); relevant legislation; and other guidance issued by Audit Scotland. The Code sets out the responsibilities of both the College and the auditor, more details of which are provided in Appendix A.

## Our Financial Statement Audit

We are responsible for conducting an audit of the financial statements of the Group and College. We provide an opinion as to:

- ▶ whether they give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the Group and College's affairs as at 31 July 2022 and its surplus or deficit for the year then ended;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102: The Financial Reporting Standard applicable in the UK and Ireland; and
- ▶ whether they have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder issued by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

We also review and report on the consistency of the other information prepared and published by the College along with the financial statements.

## Materiality

Materiality levels have been set at the planning stage of the audit as follows:

Planning Materiality	Tolerable Error	Nominal amount
<b>£560,000</b>	<b>£280,000</b>	<b>£28,000</b>
2% of the Group's gross prior year expenditure	Materiality at an individual account level	Level that we will report misstatements to committee

Based on considerations around the expectations of financial statement users and qualitative factors, we apply a lower materiality level to the audited section of the Remuneration Report. We also apply professional judgement to consider the materiality of related party transactions to both parties.

## Wider Scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- ▶ Financial management;
- ▶ Financial sustainability;
- ▶ Governance and transparency; and
- ▶ Value for money.

Our audit work over the wider scope audit dimensions complements our financial statements audit. We have updated our understanding of the risks impacting the College through discussions with management, review of relevant committee reports, and our knowledge of the education sector.

The College had previously been assessed as meeting the definition of a smaller body for the purposes of our wider scope audit consideration. As a result of the risks identified during our audit fieldwork in 2018/19, our assessment was amended and we extended our work to consider financial management and value for money alongside financial sustainability and governance and transparency. In 2019/20 and 2020/21, we considered this assessment to remain appropriate and therefore formed judgements and conclusions on all four dimensions of wider scope public audit.

For 2021/22, we consider it to remain appropriate to consider all four wider scope audit dimensions.

# Audit Risk Dashboard

## Key Financial Statement Risks

<p><b>Fraud Risk:</b> Risk of fraud in revenue and expenditure recognition</p>	<p>In accordance with ISA (UK) 240, we consider the presumed fraud risk in respect of improper income recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>
<p><b>Fraud Risk:</b> Misstatement due to fraud or error</p>	<p>As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.</p>
<p><b>Inherent risk:</b> Valuation of property, plant and equipment</p>	<p>The value of property, plant and equipment (PPE) represent significant balances in the College's financial statements. Management is required to make material judgemental inputs, including the assessment of any required impairment, and to apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>
<p><b>Inherent risk:</b> Valuation of pension assets and liabilities</p>	<p>Accounting for the Local Government Pension Scheme (LGPS) involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts, the assumptions underlying fair value estimates, and the valuation of the College's share of scheme assets and liabilities at the year end.</p>

## Wider Scope Risks

<p><b>Financial Sustainability:</b> Medium Term Financial Position</p>	<p>The consequences of the global pandemic on the College's education and financial plans have become clearer during 2021/22. The financial environment in which the College operates was already challenging, and the Covid-19 pandemic has resulted in further, significant financial pressures, and creates a risk that the College will not be able to develop viable and sustainable financial plans due to external factors. While additional funding was previously awarded to ease immediate pressures, the future outlook remains unclear.</p> <p>For 2021/22 and beyond, particular pressures are being observed in respect of student numbers, a trend observed across the sector which may result in significant clawback of grant funding. Uncertainty remains around future pay settlements with negotiations ongoing while inflationary pressures have led to a higher cost base.</p> <p>The College anticipates a breakeven position for 2021/22, however, the impact of challenging student numbers, together with inflationary pressures and national pay bargaining will make the financial position more difficult to sustain in the medium to longer term. We consider that the current levels of funding and rising costs create a risk that the College will not be able to develop sustainable medium term financial plans.</p>
<p><b>Financial Management:</b> Financial controls and capacity</p>	<p>The College finance team has had a period of stability over the last eighteen months, however additional pressures continue to be felt through the impact of working from home on a small team with limited contingency and less sophisticated online systems and processes compared to some institutions.</p> <p>The double salary payment made in October 2021 highlighted the importance of ensuring that improvements are made to financial processes and controls to prevent further similar incidents. Our work in this area will draw upon the changes and improvements made by the College in relation to finance processes and controls.</p>

## 2. Sector developments

In accordance with the principles of the Code, our audit work considers key developments in the sector. We obtain an understanding of the strategic environment in which the College operates to inform our audit approach.

### **Financial sustainability in the sector**

In June 2021, the Scottish Funding Council (SFC) released their latest report as part of a three phase review considering the future coherence and financial sustainability of colleges and universities. This was subsequently updated in a further report in March 2022. The review considers how best the SFC can fulfil its mission of securing coherent provision by post-16 education bodies, and the undertaking of research. The review covered future provision, delivery, outcomes and targets, funding models, and support for research activity across the college and university sector in Scotland.

The updated analysis reflected on the impact of Covid-19 on the sector. The analysis noted that colleges managed the impact of Covid-19 more positively than anticipated, assisted by the one-off £15 million SFC grant to colleges, no recovery of funds for shortfalls against outcome agreement targets (where the shortfall related to Covid-19), additional capital funding, discretionary funds, enhanced flexibility in drawdowns, and the Coronavirus Job Retention Scheme (CJRS) lowering staff and other operating costs. However, it noted that there were still challenges around longer-term financial sustainability.

It noted that key risks and challenges for the sector included cost pressures from cost of living pay awards, self-funding of staff restructuring, the continuing Covid-19 pandemic, the UK's exit from the European Union, backlog estates maintenance and modernisation of the ICT/digital capabilities of the colleges, the cost of staff restructuring and efficiencies made and the subsequent impact on the student experience, student outcomes, and college staff.

The final funding announcement for academic year 2021/22 highlighted that:

- ▶ The SFC's revenue budget increased by 10.8% (£70.2 million), which has resulted in an increase to teaching funding (£40 million), student support funding (£2.6 million) and other funding (£13 million).
- ▶ Student activity (credit) volume has increased by 3.6%.
- ▶ Capital funding decreased by £2 million.
- ▶ A one-off value of £10 million has been allocated to allow students whose studies were disrupted by Covid-19 to complete their courses in AY 2021-22.

We will continue to review the full impact of the 2021/22 funding announcement on the College's financial performance as part of our work on financial management.

## 2022/23 Budget

The SFC announced the indicative funding allocations for the Academic Year 2022/23 on 24 March 2022. The indicative funding allocations set out are based on the Scottish Government's draft budget 2022/23 announcement on 9 December 2021, which was approved by the Scottish Parliament on 10 February 2022. The approved Scottish Budget 2022/23 set a College Resource (Revenue) budget for the financial year 2022/23 of £675.7 million, maintained from the 2021/22 budget.

The SFC provides indicative funding allocations to help colleges plan for the forthcoming academic year, with final funding allocations to be published by the end of May 2022. The SFC's indicative funding announcement notes that:

- ▶ The SFC's revenue budget for 2022/23 has decreased by 1.9% (£13.1 million) from AY 2021/22;
- ▶ Teaching funding has been increased by 1.9% (£9.6 million);
- ▶ Student support funding has reduced by 4% (£5.6 million), and there is additional student support contingency funding of £2 million set aside;
- ▶ The other programme funding budget, which includes national sector-wide services and strategic projects, has decreased by £10.5 million;
- ▶ Student activity (credit) volume for the sector is unchanged from the baseline AY 2021-22 target of 1.73 million credits; and
- ▶ Capital funding has increased by £41 million (121.7%), with sector-wide capital maintenance increasing by 6.1% (£1.8 million).

We will continue to review the full impact of the financial savings requirements outlined in the Financial Forecast Return (FFR) against the College's strategic objectives as part of our work on financial sustainability.



# 3. Financial Statement Risks

## Introduction

The annual financial statements allow the College to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice and applicable law.

## Audit Opinion

We are responsible for conducting an audit of the financial statements of the Group and College. We will provide an opinion on the financial statements as to:

- ▶ whether they give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the Group and College's affairs as at 31 July 2022 and its surplus or deficit for the year then ended;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102: The Financial Reporting Standard applicable in the UK and Ireland; and
- ▶ whether they have been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder issued by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

We also report on the regularity of transactions, as required by the Scottish Funding Council, and review and report on the consistency of the other information prepared and published by the College along with the financial statements.

## Climate Change Reporting

Public interest in climate change is increasing. Scotland has set a legally binding target of becoming net zero by 2045, five years earlier than the rest of the UK, and has set several interim targets including a 75 per cent reduction in greenhouse gas emissions by 2030. In March 2022, Audit Scotland published a [briefing](#) (available on Audit Scotland's website) to draw out key themes and recommendations for public bodies in Scotland. The recommendations were compiled from a series of key reports, including those from Scotland's Climate Assembly and Committee on Climate Change.

The College was a signatory to the Universities and Colleges Climate Commitment for Scotland and, as a public body, is required to participate in mandatory climate change reporting under the Climate Change (Scotland) Act 2019. In our view climate-related risks and disclosures are likely to be increasingly relevant in the preparation and audit of the financial statements and we will therefore support management's improvements and reporting in this area.

## Audit Approach

We determine which accounts, disclosures and relevant assertions could contain risks of material misstatement. Our audit involves:

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the College.
- ▶ Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit and Risk Committee reporting appropriately addresses matters communicated by us to the committee and reporting whether it is materially inconsistent with our understanding and the financial statements.
- ▶ Maintaining auditor independence.
- ▶ Substantive tests of detail of transactions and amounts. For 2021/22 we plan to follow a predominantly substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

## Materiality

For the purposes of determining whether the financial statements are free from material error, in accordance with ISA (UK) 320 we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss expectations regarding our detection of misstatements in the financial statements if required.

Materiality Level	Rationale
Group Planning Materiality £560,000	<b>Planning materiality (PM)</b> - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. For planning purposes, materiality for 2021/22 has been set at £560,000. This represents approximately 2% of the Group's gross expenditure in 2020/21.
Tolerable Error £280,000	<b>Tolerable error (TE)</b> - materiality at an individual account balance, which is set so as to reduce to an acceptably low level that the aggregate of uncorrected and undetected misstatements exceeds PM. We have set it at £280,000 which represents 50% of planning materiality.
Summary of Audit Differences £28,000	<b>Summary of Audit Differences (SAD) Nominal amount</b> - the amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements. The Code requires that auditors report at no more than £250,000. We have set it at £28,000, which represents 5% of planning materiality.

The bases for the materiality outlined are consistent with our approach in previous years. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

Based on these considerations, we apply lower materiality levels to the following areas we consider to be material by nature rather than size:

- ▶ Remuneration Report; and
- ▶ Related Party Transactions.

We will therefore review the disclosures related to the above areas in greater detail compared to the materiality thresholds outlined above.

The amount we consider material at the end of the audit may differ from our initial determination. At the end of the audit we will form, and report to you, our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

## Going Concern compliance with ISA 570

We outlined in our 2020/21 reporting to the committee the impact that the Covid-19 pandemic has continued to have on the further education sector, and the increased levels of uncertainty within the forecasts used as part of the College's going concern assessment. As a result, since 2019/20, we have placed additional focus on significant judgements made to conclude whether events or conditions indicate that a material uncertainty existed that may cast significant doubt on the College's ability to continue as a going concern. The judgements made determined the appropriate disclosures to be made in the financial statements, and allowed us to consider the impact on our audit opinion.

A revised auditing standard relating to our work on going concern, ISA 570, requires:

- ▶ challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- ▶ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the College obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- ▶ improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the College is not one of these three entity types listed, we will ensure compliance with any updated reporting requirements;
- ▶ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- ▶ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

As in prior years, due to the anticipated continuation of service provision, the going concern basis of accounting will continue to be appropriate for the College.

## Covid-19 - Impact on the reporting process

Audit Scotland has set its reporting deadline for colleges in 2021/22 at 31 December 2022, recognising that any deadlines are secondary to the primacy of audit quality and ensuring completeness of work regardless of the environment in which audit takes place.

We have outlined the planned timing for the key deliverables of the audit process in Appendix D. We intend to take a hybrid approach to the 2021/22 audit with a blend of on-site and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit in 2021/22 under review.

# Significant Risks

We have set out the significant risks (including fraud risks) identified for the current year audit along with the rationale and expected audit approach. The risks identified may change to reflect any significant findings or subsequent issues we identify during the audit.

## Significant Risk - Risk of fraud in income and expenditure recognition

Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which means we also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Other than income and expenditure recognition, we have not identified any specific areas where management override will manifest as a significant fraud risk, however we will continue to consider this across the financial statements throughout the audit.

We consider there to be a specific risk around SFC income and expenditure recognition through:

- ▶ Incorrect income and expenditure cut-off recognition to alter the College's financial position around the financial year end.
- ▶ Incorrect recognition applied to grant income with conditions.

We also recognise a revenue recognition risk for other SFC grants where performance conditions are in place, tuition fee income and other grants and operating income in respect of possible manipulation of cut-off around the financial year end.

We recognise the same risk around incorrect recognition of other operating expenditure in line with Practice Note 10.

Work we will undertake:

- ▶ review and test all relevant income and expenditure policies against the relevant accounting standards and SORP
- ▶ review, test and challenge management around any accounting estimates on income and expenditure recognition for evidence of bias
- ▶ develop a testing strategy to test all material income and expenditure streams
- ▶ test all material grant income with performance conditions to ensure the income is recognised correctly in line with the outlined requirements
- ▶ review and perform focused testing on income and expenditure around the year end to ensure correct recognition around cut-off between financial periods
- ▶ perform testing for any evidence of clawback of income where conditions for entitlement have not been met
- ▶ review and develop a testing strategy for Covid-19 related income streams, including furlough income and additional Covid-19 related grant income
- ▶ assess and challenge manual adjustments or journal entries by management around the year end for evidence of management bias and evaluation of business rationale and evidence

## Fraud Risk - Misstatement due to fraud or error

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

The risk of management override is pervasive to the audit and impacts the testing of all areas. Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud.

As auditor, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk. This takes account of the fact that management are in a unique position to override controls which otherwise appear to be operating effectively.

Based on the requirements of auditing standards our approach will focus on:

- ▶ identifying fraud risks during the planning stages
- ▶ inquiry of management about risks of fraud and the controls put in place to address those risks including segregation of duties
- ▶ consideration of the effectiveness of management's controls designed to address the risk of fraud
- ▶ determining an appropriate strategy to address those identified risks of fraud
- ▶ performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements
- ▶ specific focus on the accounting for any identified key areas of judgement and estimates in the financial statements and significant and unusual transactions. This will include consideration of any provisions requiring to be made as at the balance sheet date for any restructuring arrangements entered into by the College, as applicable.

We will report our findings in these areas to you within our 2021/22 Annual Audit Report.

## Inherent Risk - Valuation of Property, Plant & Equipment

The Group's property portfolio totalled £40.6 million as at 31 July 2021 (2019/20 £41.8 million), with the major elements of this being in respect of land and buildings. Land and buildings are revalued to fair value with a full revaluation taking place at least every five years.

The valuation of property, plant and equipment is assessed as an inherent risk. Management involves specialists in the preparation of these accounting valuations. We use our own specialists, as appropriate, to support the core audit team in the performance of audit procedures on these balances.

The College is required to consider annually that the valuation of the College estate remains appropriate outside of formal revaluation cycles.

Management engaged external valuers to conduct a full valuation of the land and buildings estate as at 31 July 2020.

Given the significance of the balance within the financial statements, and the number of assumptions that are made in the valuation, we assign a higher inherent risk to property, plant and equipment. The impact of the pandemic on the use of assets and future plans means that we place significant scrutiny on management's assessment of impairment.

We do not, however, at this stage, have any specific concerns in relation to management's approach to property valuations.

Our approach will focus on:

- ▶ analysis of the source data and inquiries as to the procedures used by management's specialist to establish whether the source data is complete
- ▶ assessment of the reasonableness of the assumptions and methods used, including their compliance with the SORP
- ▶ consideration of the appropriateness of the timing of when the specialist carried out the work
- ▶ assessment of whether the substance of the specialist's findings are properly reflected in the financial statements
- ▶ assessment of the potential for impairment across the College estate that has not been reflected in the financial statements
- ▶ assessment of whether the categorisation and therefore basis of valuation of assets is appropriate
- ▶ assessment of the College's backlog maintenance estates plans, including consideration of whether backlog maintenance expenditure in the year has been correctly accounted for as capital or revenue expenditure.

## Inherent Risk - Valuation of Pension Liabilities

The College participates in two pension schemes: the Local Government Pension Scheme (Tayside Pension Fund) and the Scottish Teachers Superannuation Scheme (STSS). While both are defined benefit pension schemes, the College is unable to identify its share of the underlying assets and liabilities of the STSS scheme on a consistent and reasonable basis and therefore, the scheme is accounted for as if it were a defined contribution scheme.

The Further and Higher Education SORP and the SFC Accounts Direction require the College to make extensive disclosures within the financial statements regarding its membership of the Tayside Pension Fund. The information disclosed is based on the report issued by the College's actuary.

TPF is accounted for as a defined benefit scheme. The net pension liabilities on the balance sheet arising from participation in the scheme at 31 July 2021 were £6.8 million (2019/20: £12.6 million).

Accounting for this scheme involves significant estimation and judgement, including financial and demographic assumptions. The College engages an actuary to undertake the calculations on their behalf.

ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach will include:

- ▶ obtaining an actuarial report at the year end date for the scheme and considering the reasonableness and consistency of assumptions underpinning such reports, in light of guidance available
- ▶ performing substantive testing on the verification of the pension assets, by engaging with the auditor of Tayside Pension Fund in line with the assurance protocols laid out by Audit Scotland for IAS 19
- ▶ engage our actuarial specialists to assess the work of the actuary (Barnett Waddingham), including the assumptions they have used and their assessment of the liability due to recent legal rulings including McCloud and Goodwin
- ▶ performing testing over asset valuations to ensure they are appropriately valued
- ▶ review and test the accounting entries and disclosures made within the College's financial statements in relation to pensions ensuring compliance with the SORP.



## Other audit considerations

We also plan and perform certain general audit procedures on every audit which may not be directly related to financial statement account assertions. Examples of such procedures includes compliance with applicable laws and regulations, litigation and claims and related parties.

### ***Accounting Framework: Updated SFC Accounts Direction***

The SFC's Accounts Direction is published annually in July and provides colleges with guidance on disclosure requirements for the financial statements. We will work with management during 2021/22 to ensure the correct application of any new requirements.

### ***Use of specialists***

When auditing key judgements, such as the valuation of property, plant and equipment, defined benefit pension scheme assets and liabilities, or certain assets and liabilities, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the College's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable.
- ▶ Assess the reasonableness of the assumptions and methods used.
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work.
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

### ***Internal audit***

We will review the internal audit plan and the results of internal audit's work, including the discussion of audit findings at the Audit Committee and management's response to findings. We will reflect the findings from internal audit reports, together with reports from any other work completed in the year, in our plan for the audit, where they raise issues that could have an impact on the financial statements or our wider responsibilities.

### ***Cyber Security***

As outlined by Audit Scotland within their report *Fraud and Irregularity Report 2020/21*, the Covid-19 pandemic has brought significant challenges across the public sector as bodies have sought to continue to deliver services during extremely difficult times. In such emergency situations, existing controls may be compromised and it can be difficult to put in place robust controls for new processes. It was recommended that auditors should ensure appropriate governance structures are in place for the prevention and detection of fraud and that appropriate reviews and amendments to controls have taken place in light of remote working and that those controls are sufficiently strong.

The report highlights that there has been an increase in cybercrime, as more public sector staff connect remotely, including the use of various online video conferencing services for meetings which pose security issues. The report also highlights an increase in phishing emails and scams which, if accessed, allow fraudulent access to public sector systems. We will review management's assessment of whether internal controls at the College are sufficiently robust to mitigate the risk of cyber attacks.

### **Other audit responsibilities**

Under the terms of our appointment, our role and responsibilities include a number of other assurance activities. This includes the provision of information to support Audit Scotland national reports and studies.

### ***Anti-money laundering***

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 came into force on 26 June 2017 and replace The Money Laundering Regulations 2007. The regulations impose an obligation on the Auditor General to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. As appointed auditor we will consider arrangements for the College to identify and report any instances of money laundering in line with Audit Scotland reporting arrangements.

### ***Data analytics***

Where possible and appropriate, we will use our bespoke data analysers to enable us to capture whole populations of your financial data, in particular covering journal entries and payroll transactions. These analysers help identify specific exceptions and anomalies within populations of data to focus substantive audit tests more effectively than traditional audit sampling.

We will report the findings of our work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee through the yearend audit reporting process.

### *Group audit*

The Group consists of the following organisations:

- ▶ Air Service training (Engineering) Ltd; and
- ▶ Perth College Development Trust.

We have considered the arrangements in respect of each of the College's group undertakings at the planning stage and will review throughout the audit.

Air Service Training (Engineering) Limited (AST Ltd), delivers aeronautical engineering courses for both the aviation industry and individual students. AST Ltd are audited by Armstrong Watson, and we will issue them with group audit instructions outlining the procedures required to support the group audit opinion.

## 4. Wider Scope Dimensions: Risk assessment and approach

Together the Accounts Commission and the Auditor General for Scotland agreed the four dimensions set out in the Code of Audit Practice which comprise the wider scope audit. These are:

- ▶ Financial Management;
- ▶ Financial Sustainability;
- ▶ Governance and Transparency; and
- ▶ Value for money.

The College had previously been assessed as meeting the definition of a smaller body for the purposes of our wider scope audit consideration. As a result of the risks identified during our audit fieldwork in 2018/19, our assessment was amended and we extended our work to consider financial management and value for money alongside financial sustainability and governance and transparency. In 2019/20 and 2020/21, we considered this assessment to remain appropriate and therefore formed judgements and conclusions on all four dimensions of wider scope public audit.

For 2021/22, we consider it to remain appropriate to consider all four wider scope audit dimensions.

### **Basis for risk assessment**

The Code sets out an expectation that 'significant' risks identified through our planning process that relate to the wider scope dimensions will be communicated with you.

As part of our risk assessment procedures, we have reviewed each dimension to assess potential areas of risk. We set out our areas of focus, along with any specific significant risks relating to each dimension below.

### **Financial Management**

The financial management dimension considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.

In our 2020/21 Annual Audit Report, we concluded that the College has an established budget setting and monitoring framework which includes presentation of financial updates to the Board, Finance and General Purposes Committee and Audit Committee throughout the year. Improvements had been made to the presentation of financial information.

## Financial Management continued

However, we also noted that there were opportunities to improve financial controls and capacity within the finance team, with the recent double salary payment demonstrating the importance of a strong control environment.

Our work will continue to consider financial reporting and monitoring in addition to how internal control arrangements are being adapted and monitored to respond to hybrid working arrangements.

### Financial controls and capacity

The College finance team has had a period of stability over the last eighteen months, however additional pressures continue to be felt through the impact of working from home on a small team with limited contingency and less sophisticated online systems and processes compared to some institutions.

The double salary payment made in October 2021 highlighted the importance of ensuring that improvements are made to financial processes and controls to prevent further similar incidents. Our work in this area will draw upon the changes and improvements made by the College in relation to finance processes and controls.

## Financial Sustainability

Financial sustainability considers the medium and longer term outlook for the College to determine if planning is effective to support service delivery. We focus on the arrangements to develop viable and sustainable financial plans.

In 2020/21, the College prepared a three-year financial forecast for the period 2021 to 2024 and submitted these to the SFC in the form of the template Financial Forecast Return ('FFR'). The forecast is based on assumptions provided by the SFC in addition to College specific assumptions for areas such as other income and staff numbers, as included within the College's Budget 2021/22.

### Medium Term Financial Planning

The consequences of the global pandemic on the College's education and financial plans have become clearer during 2021/22. The financial environment in which the College operates was already challenging, and the Covid-19 pandemic has resulted in further, significant financial pressures, and creates a risk that the College will not be able to develop viable and sustainable financial plans due to external factors. While additional funding was previously awarded to ease immediate pressures, the future outlook remains unclear.

For 2021/22 and beyond, particular pressures are being observed in respect of student numbers, a trend observed across the sector which may result in significant clawback of grant funding. Uncertainty remains around future pay settlements with negotiations ongoing while inflationary pressures have led to a higher cost base.

The College anticipates a breakeven position for 2021/22, however, the impact of challenging student numbers, together with inflationary pressures and national pay bargaining will make the financial position more difficult to sustain in the medium to longer term. We consider that the current levels of funding and rising costs create a risk that the College will not be able to develop sustainable medium term financial plans.

## 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.

In our 2020/21 Annual Audit Report we concluded that the College had in place the key requirements for good governance, and concluded that these key features of good governance remained in place and were operating effectively throughout the Covid-19 lockdown. However, it was noted that the absence of the Board Secretary for part of the year has resulted in delays in some governance activities being performed including the timely publication of Board and Committee minutes on the College website. We concluded that the Annual Governance Statement materially complied with the SFC's 2020/21 Accounts Direction.

The College's Annual Governance Statement continued to disclose weaknesses in internal control, although we continue to note progress against the Board's improvement plan with 93% of actions now being either complete or partially complete.

Our work for the year will consider:

- ▶ A targeted follow up review to assess progress against the improvement action plan, reflecting the necessity of changes in priorities to reflect the pandemic;
- ▶ How the College has ensured that appropriate support arrangements are in place for the Board Secretary to ensure the continuation of key governance activities;
- ▶ Reviewing the College website to ensure it is updated in a timely manner with key publications including Board and Committee minutes;
- ▶ If the Annual Governance Statement within the financial statements is complete and reflects key matters arising during the year; and
- ▶ Progress against prior year audit recommendations from both internal and external audit, including the College's arrangements for ensuring these are monitored and reported on a routine basis.

In line with auditing standards, as part of our consideration of the College's governance arrangements, we will be writing to the College Audit Committee to confirm how those charged with governance ensure oversight of management and appropriate governance arrangements are in place. This is not reflective of specific risks identified at the College, but rather in line with our process to annually make formal inquiries beyond standard management meetings and representations.

## Value for money

In our 2020/21 Annual Audit Report we concluded that the College had continued to review the effectiveness of balanced scorecard reporting, with further improvements planned for 2021/22 as part of a revised risk management framework incorporating the balanced scorecard. Improvements had been in relation to procurement processes but further changes were required to ensure compliance with the relevant guidance and best practice.

The Strategic Plan for 2016-21 was published in June 2016, outlining four strategic objectives within a balanced scorecard to review performance against. The College's performance against target was maintained in 2020/21 in comparison to 2019/20 with only 40% of performance measures meeting target.

The College Board considers regular updates against the Strategic Plan throughout the year.

Our work for the year will consider whether:

- ▶ The College has arrangements to ensure value for money through the use of public funds, including a robust procurement framework that is used by all employees and is subject to regular scrutiny;
- ▶ Performance information is published on the College website in a timely manner;
- ▶ The College has progressed in the development of an updated Strategic Plan;
- ▶ The College has realised the improvements planned for 2021/22 with regard to the revised risk management framework; and
- ▶ A robust governance process is in place for the operation of the College's severance scheme during 2021/22, including compliance with SFC guidance.

# Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Audit Committee

D - Timing and deliverables of the audit

E - Audit fees

F - Additional audit information



# Appendix A: Code of Audit Practice Responsibilities

## Audited Body's Responsibilities

### Corporate Governance

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including Audit and Risk Committees or equivalent) in monitoring these arrangements.

### Financial Statements and related reports

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- ▶ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.
- ▶ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.
- ▶ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.
- ▶ maintaining proper accounting records.
- ▶ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.
- ▶ Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

### Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

### Financial Position

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- ▶ such financial monitoring and reporting arrangements as may be specified
- ▶ compliance with any statutory financial requirements and achievement of financial targets
- ▶ balances and reserves, including strategies about levels and their future use
- ▶ how they plan to deal with uncertainty in the medium and longer term
- ▶ the impact of planned future policies and foreseeable developments on their financial position.

### Best Value

The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

# Appendix B: Independence Report

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard</li> </ul>	<ul style="list-style-type: none"> <li>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues</li> </ul>

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as your external auditor.

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Stephen Reid, your audit engagement partner, and the audit engagement team have not been compromised.

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Stephen Reid, your audit engagement partner, and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Group. Examples include where we have an investment in your company; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's Ethical Standard and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC Ethical Standard, and if necessary agree additional safeguards or not accept the non-audit engagement. At the time of writing, we provide no non-audit services. This will continue to be monitored through the audit engagement. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you.

There are no other self interest threats at the date of this report.

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Group. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

# Appendix C: Required Communications

Required communication	Our reporting to you
<p><b>Terms of engagement / Our responsibilities</b></p> <p>Confirmation by the Audit and Risk Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter - audit to be undertaken in accordance with the Code of Audit Practice</p>
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p>	<p>Annual Audit Plan</p>
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	<p>Annual Audit Plan Annual Audit Report</p>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>Annual Audit Report</p>
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	<p>Annual Audit Report</p>
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Risk Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ul style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements</li> </ul> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit and Risk Committee responsibility</li> </ul>	<p>Annual Audit Report</p>

Required communication	Our reporting to you
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	<p>Annual Audit Report or as occurring if material.</p>
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Audit and Risk Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Risk Committee may be aware of</li> </ul>	<p>Annual Audit Report or as occurring if material.</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Annual Audit Plan Annual Audit Report</p>
<p><b>Internal controls</b></p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>Annual Audit Report</p>
<p><b>Representations</b></p> <p>We will request written representations from management and/or those charged with governance.</p>	<p>Annual Audit Report</p>
<p><b>Subsequent events</b></p> <p>Where appropriate, asking the Audit and Risk Committee whether any subsequent events have occurred that might affect the financial statements.</p>	<p>Annual Audit Report</p>
<p><b>Material inconsistencies and misstatements</b></p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	<p>Annual Audit Report</p>
<p><b>Fee Reporting</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	<p>Annual Audit Plan Annual Audit Report</p>

**Group Audits**

Annual Audit Plan

- ▶ An overview of the type of work to be performed on the financial information of the components
- ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components
- ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work
- ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted
- ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements

# Appendix D: Timing and deliverables of the audit

We deliver our audit in accordance with guidance from Audit Scotland. We will work with management and the committee secretariat to agree a timetable for the completion of the audit that ensures a smooth governance process.

	Audit Activity	Deliverable	Timing
APR	▶ Walkthrough Visit	Completion of internal documentation	May 2022
MAY	▶ Audit planning and setting scope and strategy for the 2021/22 audit	Annual Audit Plan	May 2022
JUN	▶ Review of reported frauds	Quarterly fraud return submission	Quarterly
SEP	▶ Year-end substantive audit fieldwork on unaudited financial statements	Audited Financial Statements	Oct - Nov 2022
OCT	▶ Conclude on results of audit procedures	Issue Annual Audit Report	Dec 2022
NOV	▶ Issue opinion on the College's financial statements	Submit Audit Scotland minimum dataset request	Dec 2022
DEC			
JAN			

# Appendix E: Audit fees

The audit fee is determined in line with Audit Scotland's fee setting arrangements, set out in recent communications to all audited bodies in line with their publication on 'Our Approach to setting audit fees' ([http://www.audit-scotland.gov.uk/uploads/docs/um/audit\\_fee\\_approach.pdf](http://www.audit-scotland.gov.uk/uploads/docs/um/audit_fee_approach.pdf)).

Audit Fees	2021/22	2020/21
<b>Component of fee:</b>		
Auditor remuneration - expected fee	£19,290	£18,890
Additional audit procedures (see below)	£6,800	£8,400
Audit Scotland fixed charges:		
Pooled costs	£1,070	£1,220
Contribution to Audit Scotland costs	£960	£800
<b>Total fee</b>	<b>£28,120</b>	<b>£29,310</b>

The expected fee for each body, which for 2021/22 has been set centrally by Audit Scotland, and assumes that the College has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and supporting schedules, and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year and an unqualified audit opinion resulting from the audit.

Should any of these circumstances not be in place throughout the audit, it is expected that additional costs will be incurred through the course of the audit which will be subject to recovery in line with the agreed process and rates set out by Audit Scotland. Under this process, fees can be agreed between the auditor and audited body by varying the auditor remuneration by up to 20% above the level set, or more with the approval of Audit Scotland. As such we have included in the fee estimate for the year our current estimate of the costs related to additional work which can be reasonably estimated at this stage of our planning. The fee variation of £6,800 reflects our assumed additional work which will be required around the College's financial sustainability and financial management risks outlined in this report, the additional work from the inclusion of the financial management and value for money wider scope dimensions, the follow up work from outstanding areas of focus in prior years, and the requirement to reduce materiality on our audit due to our expectation of errors taking account of prior year audit differences. All fee variations would be agreed with management prior to finalisation of the audit. Should additional audit requirements arise we will raise these with management through the course of the audit and agree variations as appropriate, and report the final position to the Audit Committee with our annual audit report.



# Appendix F: Additional audit information

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

## Our responsibilities required by auditing standards

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of the going concern basis of accounting.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Read other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

## Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the locations at which we conduct audit procedures and the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

## Audit Quality Framework / Annual Audit Quality Report

Audit Scotland are responsible for applying the Audit Quality Framework across all audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team responsible are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support reporting on audit quality by providing additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: [Quality of public audit in Scotland annual report 2020/21 | Audit Scotland \(audit-scotland.gov.uk\)](#)

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details can be found in our annual Transparency Report: [EY UK 2021 Transparency Report | EY UK](#)

#### **About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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#### **Ernst & Young LLP**

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