

# **Audit planning guidance**

## **Further education – 2014/15 audits**

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Planning guidance – further education

## Key outputs and dates

Date	Activity	Contact	Ref
05/11/14	Submit initial fee claim (firms)	Owen Smith	GP 44
05/11/14	Submit audit partner & manager contact details & billing address changes for invoice purposes	Owen Smith	GP 9
07/01/15	Submit December progress report (firms)	Owen Smith	GP 69
07/04/15	Submit March progress report(firms)	Owen Smith	GP 69
30/06/15	Submit annual audit plan	Owen Smith	GP 10
06/07/15	Submit June progress report	Owen Smith	GP 69
05/10/15	Submit September progress report	Owen Smith	GP 69
31/12/15	Certification deadline - submit ISA 260	Owen Smith	7
31/12/15	Submit annual audit report to those charged with governance	Owen Smith	8
31/12/15	Submit any remaining outputs of the audit	Owen Smith	GP 12-17
31/12/15	Submit minimum data set	Mark MacPherson	24- 25
31/01/16	Submit final fee claim	Owen Smith	GP 50-51

### Notes:

- This summary captures all of the key audit activity and associated outputs in the year
- **All** audit outputs, including the above and any additional audit outputs identified in annual audit plans, should be emailed to [outputs@ishare.audit-scotland.gov.uk](mailto:outputs@ishare.audit-scotland.gov.uk) (firms) or added to ishare (ASG) (except hard copies of signed accounts - see paragraph 10)
- **GP** refers to the General Audit Planning Guidance document
- **Contacts** are who to contact if you have any queries regarding the activity.

## Introduction

1. This guidance is for the audit of further education colleges. It should be considered along with the general planning guidance that applies to all sectors.

## Main points/changes from last year

- the remuneration rate used to calculate fees has been increased by 2% based on Audit Scotland's scale uplift
- the process for agreeing fees introduced for 2011/12 remains unchanged for 2014/15. Auditors should see the general audit planning guidance for further details
- the certification and annual reporting deadlines for FE colleges have been revised again following the change to a 31 March financial year-end for all non-UHI colleges last year; for 2014/15 all colleges will revert to a 31 July year-end
- all audit outputs, including any additional audit outputs identified in local annual audit plans, should be emailed to [outputs@ishare.audit-scotland.gov.uk](mailto:outputs@ishare.audit-scotland.gov.uk) (firms) or added to ishare (ASG)
- auditors are reminded of their responsibility to inform Audit Scotland promptly about any significant matters which may arise from the audits; if a potentially significant issue is identified, auditors should contact Mark MacPherson per paragraph 28 before finalisation of the annual audit report
- following an Audit Scotland review of audit materiality we have set a cap for clearly trivial thresholds and now require materiality disclosures in the annual audit plan (see paragraphs 14-16)
- additional disclosures in the annual audit report, reflecting revisions to ISA 700, are being recommended (see paragraphs 12-13 )

## Code of Audit Practice and core audit requirements

2. Apart from performance information published under the direction of the Accounts Commission and statutory Best Value audit which are specific to local authorities, and the submission of fraud returns, the responsibilities of auditors described in the Code of Audit Practice generally apply to the FE sector. However, see paragraph 8 of the general audit planning guidance which is relevant to planning the audits of FE bodies.
3. Auditors' responsibilities for national performance audit in FE colleges are governed by guidance issued by Audit Scotland. Auditors may undertake locally determined work with an audited body's agreement.
4. For the purpose of this note, the core audit can be defined as the work that Audit Scotland provided for when setting the 2014/15 indicative fee range for each FE college, i.e. the audit work required to:
  - provide the Independent Auditor's Report on the financial statements
  - provide the annual report on the audit addressed to the body and the Auditor General
  - identify significant matters arising from the audit, alert Audit Scotland accordingly and support the production of statutory reports as required
  - communicate audit plans to those charged with governance

- provide reports to management, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code
  - Provide minimum dataset information to Performance Audit & Best Value Group (PABV).
5. Any work commissioned from auditors above and beyond the core audit work will incur additional audit fees. When commissioning such work Audit Scotland will indicate whether the additional fee is to be separately agreed with the audited body or to be invoiced to the PABV Group, assuming that the work cannot be accommodated by varying the fee agreed with the body within the indicative fee range.

### Sector meetings

6. Audit Scotland hosts meetings of all auditors involved in the further education sector during the year, and one annual all-sector audit planning conference. Auditors are expected to attend and contribute to these events.

### Certification and reporting deadlines

7. The Scottish Funding Council notified college principals on 5th September 2014 that the financial year-end will revert to 31 July; this means that non-UHI colleges will have a 16 month accounting period for 2014/15, running from 1st April 2014 to 31st July 2015. The comparative figures for the 2014/15 accounts for non-UHI colleges will cover the 8 month period from 1st August 2013 to 31st March 2014. UHI incorporated colleges will continue as previously with the 31 July year-end. The certification deadline for 2014/15 FE audits is **31st December 2015**. Auditors should aim to submit the audited financial statements and the annual audit report to members and the Auditor General at the same time to facilitate early identification of section 22 reports under Public Finance and Accountability (Scotland) Act 2000.
8. Annual audit reports to the Auditor General should be provided electronically in PDF format to assist publication on Audit Scotland's web-site.
9. Where a college seeks to finalise its audit in a shorter timescale auditors should aim to accommodate the college's wishes.
10. Auditors should submit **two hard copies of the signed accounts** to:
- Owen Smith  
Audit Scotland  
110 George Street  
Edinburgh EH2 4LH
11. The number of signed audited accounts required by audited body should be agreed locally. For other queries about audit certification and reporting the contact point is **Owen Smith** in Audit Strategy. **Appendix 1** provides further detail on the laying process for FE accounts.

## Audit Reporting: annual audit reports

12. ISA (UK and Ireland) 700 *The independent auditor's report on the financial statements* was revised in 2013 and has led to changes to auditor reporting requirements in the private sector. Currently, just two of our audited bodies (Scottish Water and Scottish Canals) must produce a more detailed independent auditor's report in compliance with paragraphs 19A and 19B of the ISA; this is because both bodies have voluntarily adopted the UK Corporate Governance Code (listed companies must apply this code).
13. Audit Scotland is keen to enhance auditor reporting in the public sector in the interests of transparency; enhanced reporting will improve stakeholder understanding of the audit and the issues considered by the auditors. Our annual audit reports are published on our web site: their public availability and content make them an ideal vehicle for the enhanced reporting required of listed companies per paragraphs 19A and 19B of ISA 700. We therefore expect that annual audit reports for 2014/15 will include the following information:
  - a description of those assessed risks of material misstatement that were identified by the auditor which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the audit team
  - an explanation of how the auditor applied the concept of materiality in planning and performing the audit, including specifying the materiality threshold for the financial statements as a whole
  - an overview of the scope of the audit, including an explanation of how it addressed the assessed risks of material misstatement and was influenced by the auditor's application of materiality
  - the audit findings from work on each risk of material misstatement or a statement that there is nothing to report.

## Audit Materiality

14. A recent Audit Scotland review of audit materiality found a wide variation in materiality percentages (for overall and performance materiality as well as clearly trivial thresholds) being applied, with many auditors using the maximum percentage permissible under their own guidance and/or applying the same percentage across all their audited bodies. These findings have raised concerns regarding the amount of work being carried out and the degree of judgement being applied on audit engagements.
15. Audit Scotland expects auditors to take into account the public interest factor inherent to the work carried out for the Auditor General and the Accounts Commission and apply judgement when determining overall materiality, performance materiality and clearly trivial thresholds, in compliance with ISA 320 Materiality in planning and performing an audit. Risk considerations specific to an audited body should be reflected in the performance materiality figure which should then be used to scope areas of the financial statements that will be subject to audit, determine sample sizes and evaluate variances arising from analytical procedures. The threshold for clearly trivial above which auditors should accumulate misstatements for

reporting and correction to audit committees is a matter for auditor judgement but should not exceed £250,000.

16. In the interests of transparency, auditors must report the materiality figures being used (overall and performance), and the clearly trivial thresholds for accumulating and reporting misstatements, in their audit plans. This information is important for audit committees in fulfilling their oversight responsibilities.

## Correspondence and statutory reports

17. Audit Scotland may from time to time request auditors to support preliminary enquiries and investigations into matters raised with Audit Scotland through correspondence or where significant matters arise which may lead the Auditor General to consider making a statutory report.
18. The arrangements for agreeing additional work and the process for related fee claims are set out in the general audit planning guidance.
19. Audit Scotland is currently reviewing arrangements for correspondence handling and the accounts review process and is keen to engage with appointed auditors on this. Further guidance will be issued to appointed auditors as the new arrangements are developed.
20. The main contact is **Angela Canning**, Assistant Director, PABV ([acanning@audit-scotland.gov.uk](mailto:acanning@audit-scotland.gov.uk)) 0131 625 1835. Other PABV contacts can be found here: [https://x18sp.extranet.audit-scotland.gov.uk/auditprocurement/planning/Guidance/PABV\\_Place\\_and\\_Portfolio\\_Responsibilities.pdf](https://x18sp.extranet.audit-scotland.gov.uk/auditprocurement/planning/Guidance/PABV_Place_and_Portfolio_Responsibilities.pdf) (for firms) and here: [http://ishare/PABV/PABVport/Gen\\_Port\\_Docs/PABV\\_Place\\_and\\_Portfolio\\_Responsibilities.docx](http://ishare/PABV/PABVport/Gen_Port_Docs/PABV_Place_and_Portfolio_Responsibilities.docx) (for ASG).

## Guidance on auditing financial statements and related matters

21. Audit Scotland will publish a note for guidance to provide auditors with guidance on planning and performing the audit of the 2014/15 further education financial statements. The note will highlight the areas that represent generic risks of material misstatement in the financial statements, and will provide guidance on:
  - the opinion on the regularity of income and expenditure
  - the opinion on the consistency of the operating and financial review with the financial statements
  - matters on which auditors are required to report by exception, e.g. the statement of corporate governance and internal control.
22. A separate note for guidance containing model auditor's reports based on the requirements of ISA 700 but adapted for colleges will be published in due course.
23. The contact point for notes for guidance is **Neil Cameron** in the TSU ([ncameron@audit-scotland.gov.uk](mailto:ncameron@audit-scotland.gov.uk), 0131 625 1797).

## Planned performance audit work

24. Auditors are asked to complete a minimum dataset of information each year. PABV Group plan to publish an overview report of the college sector based on two financial years 2012/13 and 2013/14 in February 2015. Plans for an overview report based on 2014/15 are still being made. PABV Group relies on auditors to provide the base data (i.e. minimum dataset) needed for such commentary. The Group will discuss with auditors to agree what additional information should be collected as part of the overall FE sector meeting; failing this a separate meeting will be arranged with auditors.
25. Generally, the minimum dataset of information will consist of information that is already in the audit domain as a result of the core audit work undertaken for the audit of financial statements and governance purposes. Auditors should aim to deliver this dataset along with the audited accounts and annual audit report i.e. by 31 December 2015.
26. PABV will advise auditors in due course if any further work is required.
27. There is no other requirement for auditors to undertake specific performance audit work in FE colleges for 2014/15. However, auditors are reminded of the desirability of working in partnership with Audit Scotland as far as possible and maintaining audited bodies' awareness of performance audits that are relevant to the sector.
28. **Mark MacPherson** is the Senior Manager with responsibility for FE colleges within PABV Group ([MMacPherson@audit-scotland.gov.uk](mailto:MMacPherson@audit-scotland.gov.uk)) 0131 625 1828. Links for PABV contacts at paragraph 20. Auditors are encouraged to make early contact with Audit Scotland where there are issues in the audited body which may result in a statutory report.

## Community Planning Partnership Audits

29. The joint Scottish Government/COSLA Statement of Ambition for Community Planning sets out the key role that community planning and community planning partnerships (CPPs) should play in providing the foundation for effective partnership working, within which wider public service reform initiatives will happen. CPPs are a vehicle for delivering more integrated local public services, an increased focus on prevention and better outcomes for communities.
30. Appointed auditors will participate in CPP audit scoping work for any CPPs carried out in 2014/15, drawing on their existing knowledge of the council, health board and other public bodies, focusing in particular on their participation in and contribution to the local community planning process. Any additional work required from appointed auditors to support individual CPP audits will be agreed on a case-by-case basis with PABV Group.
31. The contact for community planning partnership audits is **Antony Clark**, Assistant Director, Performance Audit & Best Value Group ([aclark@audit-scotland.gov.uk](mailto:aclark@audit-scotland.gov.uk)) 0131 625 1857).

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## Other issues

### Issues arising from auditors' 2013/14 annual audit reports

32. Audit Scotland has been considering the issues arising from auditors' 2013/14 annual audit reports to members and the Auditor General and other topical issues. If necessary, Audit Scotland will consult with auditors before issuing any guidance on issues for review and possible reporting for 2014/15 audits.

### Certification of grant claims and other returns

33. Indicative fee ranges for FE colleges do not provide for auditors certifying any grant claims, statistical returns or other similar arrangements. However, auditors may be approached by colleges with requests to certify grant claims. In such cases, auditors should have regard to the following guidelines:
- Certification by internal audit should be encouraged where the paying agency finds this acceptable.
  - Where certification by an independent accountant is required, but not specifically the college's appointed external auditor, colleges may prefer to arrange to have the work carried out by a local firm of accountants.
  - Where certification by the appointed external auditor is required, auditors may enter into a local arrangement with their colleges. The fee arrangements for this non-audit work are a matter for the college and the auditor. No prior approval is required from Audit Scotland to undertake the work and it should not be included in annual audit plans. Fees for grant claims should be billed directly to colleges by firms, but the fee income earned should be reported in the final fee claim progress report.

## National Fraud Initiative (NFI)

34. Audit Scotland is reviewing participation of the FE sector in the NFI and will be in touch with any auditors whose colleges are involved.

## Audit Service Quality Surveys

35. Audit Strategy will be issuing audit service quality questionnaires to all audited bodies in the further education sector (and NHS sector) in order to seek feedback on the audit service provided in 2013/14. These surveys are an important component of our quality assurance work. Views are sought from chief financial officers, chief executives and audit committee chairs. The results from these biennial surveys are reported to Audit Scotland's Board and Audit Committee and summaries are provided to the auditors and audited bodies.

# Appendix 1: End of audit arrangements

FE audited accounts need to be laid before the Scottish Parliament. Under the Public Finance and Accountability (Scotland) Act 2000, Scottish Ministers must lay a copy of each audited body's signed accounts including the audit certificate and arrange for them to be published within 9 months of the year-end i.e. by 30 April. Colleges must submit a copy of the audited accounts to the Scottish Funding Council along with an electronic copy of the unsigned accounts, annual audit report and excel template. Auditor submission requirements are set out below:

	Audit Scotland (Audit Strategy)*	College	ASG	Firms
<b>Hard copy of signed accounts:</b>	2 *	To agree locally	1 unless further copies agreed locally	1 unless further copies agreed locally
<b>Electronic PDF version of accounts:</b>	1	n/a	**	***
<b>ISA 260</b>	1	1	**	***
<b>Annual Audit Report</b>	1	1	**	***

\* Hard copies of the accounts should be delivered to Owen Smith, 110 George Street, Edinburgh, EH2 4LH.

All audit outputs should be

\*\* added to ishare 'X College - Financial Audit - Outputs' section (ASG)

\*\*\* emailed to [outputs@ishare.audit-scotland.gov.uk](mailto:outputs@ishare.audit-scotland.gov.uk) (Firms)