

Edinburgh College

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for Edinburgh College

April 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

2. Edinburgh College was formed in October 2012 by the merger of Jewel and Esk, Telford and Stevenson colleges. It is governed by a Board which is responsible for determining the overall strategy of the College and the proper use of public funds, the quality of provision and appointing the Principal and other senior staff.

3. In their report on the 2015/16 audit, the external auditors highlighted concerns about Edinburgh College's financial position and future sustainability. In March 2017, the Auditor General for Scotland made a report under section 22 of the Public Finance and Accountability (Scotland) Act 2000 to draw the Scottish Parliament's attention to ongoing concerns about financial sustainability. The Auditor General has asked that the external auditor continues to monitor progress and this Annual Audit Plan reflects this request.

Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Edinburgh College. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#) below.

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Focused testing of accounting adjustments at the year-end. • Evaluation of significant transactions that are outside the normal course of business.

Audit Risk	Management assurance	Planned audit work
<p>2 Risk of fraud over income</p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams are significant.</p> <p>Edinburgh College recorded income of £64 million in 2015/16, of which £48 million was provided by the Scottish Funding Council (SFC) and £16 million was received from other sources.</p> <p>SFC funding is reliant on accurate recording of student numbers and courses provided. In addition, the level of income received from other sources is material. We are unable to rebut the risk of material misstatement due to fraud.</p>	<ul style="list-style-type: none"> • Effective budget monitoring. • Effective Counter Fraud and Whistleblowing policies and procedures in place. • Financial Regulations and Procedures provide key controls over systems and processes. • Processes and procedures are continuously reviewed and improved where appropriate • Adequate segregation of duties, sound budget monitoring arrangements and accountability. • Monthly monitoring meeting with SFC. 	<ul style="list-style-type: none"> • SFC grant income reconciled to the funding allocation. • Reliance on aspects of internal audit work on student activity. • Review of systems for recording student activity. • Analytical procedures on income streams. • Detailed testing of revenue transactions focusing on the areas of greatest risk.
<p>3 Financial Position / Going Concern</p> <p>The College reported a deficit of £7 million in 2015/16. Excluding pension accounting adjustments, the underlying position for 2015/16 was a £4 million deficit.</p> <p>The College is forecasting a deficit of £3.5 million for 2016/17.</p> <p>The financial position is dependent on a range of outcomes. These include:</p> <ul style="list-style-type: none"> • reducing expenditure generally across the College • the achievement of student activity targets • the ability to effectively manage cash balances including the repayment of cash advances provided by SFC • the achievement of the milestones set out in the Transformation Plan <p>There is a risk that the anticipated financial outcome is not achieved and further financial support will be required from the SFC.</p>	<ul style="list-style-type: none"> • Budgetary control information demonstrates that the College is on target to achieve the planned outturn. • Savings have been achieved through the voluntary severance scheme and in various non-pay areas • In 2015/16, the SFC provided assurance that additional grant funding would be made available to support the College's financial position. We anticipate this support to continue into 2016/17. 	<ul style="list-style-type: none"> • Monitor progress on the financial position. • Reliance on aspects of internal audit work on student activity. • Review of systems for recording student activity.
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in relation to measurement and valuation in the material account areas of non-current assets (£150 million) and the net pension liability</p>	<ul style="list-style-type: none"> • Sound arrangements for providing valuation information have been established. • Valuers are established and recognised providers in their field. 	<ul style="list-style-type: none"> • Review of the work of an expert for the professional valuer. • Review of accounting policies to ensure they are appropriate and properly applied.

Audit Risk	Management assurance	Planned audit work
<p>under FRS102 (£25 million). This subjectivity represents an increased risk of misstatement in the financial statements.</p>		<ul style="list-style-type: none"> • Focused substantive testing of year end balances.
<p>5 Pension Liabilities</p> <p>The College accounts for its membership of Lothian Pension Fund in accordance with FRS 102.</p> <p>The actuarial valuation methodology relies on judgement and assumptions in relation to financial, demographic and mortality factors. The valuation process also relies on the data provided by the College to the actuary being accurate, complete, timely and verifiable.</p> <p>The actuarial input in valuing the Fund could be affected by incomplete or inaccurate information, reliance on source data which is not fully validated or the use of unreasonable assumptions.</p>	<ul style="list-style-type: none"> • Reliance upon accuracy of pension scheme data provided directly to actuaries appointed by the Fund. • Accurate information is provided by the College to the actuaries which is then appropriately reflected in the financial statements. 	<ul style="list-style-type: none"> • Assess the reliability, professional competence capability and objectivity of the actuary as experts on whom reliance is placed. • Review of the financial assumptions underlying the actuary's calculations. • Review PwC report assessing actuarial processes. • Testing/agreement of membership data used by the actuary to data from the pension fund. • Agree actuarial reports to financial statements disclosures.
Wider dimension risks		
<p>6 Financial sustainability</p> <p>The College was heavily dependent on SFC support in 2015/16 in order to meet its liabilities, and will continue to be so until at least 2018/19.</p> <p>Financial sustainability will require achievement of:</p> <ul style="list-style-type: none"> • the agreed target rate of student activity • the implementation of the curriculum review • voluntary severance scheme targets • Transformation Plan. <p>There is a risk that the College fails to achieve financial sustainability in the short to medium term and that the funding gap is not effectively managed.</p>	<ul style="list-style-type: none"> • The SFC has acknowledged the scale of change required by the Transformation Plan and the fact that the College may require further support to meet operating and transformation costs. • Monthly monitoring meeting with SFC. • Risk Register overseen by Audit and Risk Assurance Committee. • Board and Policy and Resources Committee oversight of Transformation Plan. 	<ul style="list-style-type: none"> • Review internal work on the progress of the Transformation Plan • Monitor progress on the Transformation Plan. • Monitor progress on achievement of financial targets. • Monitor student recruitment and retention activity.
<p>7 Financial management</p> <p>Effective financial management requires sufficient financial capacity, sound budgetary processes and a sound control environment with internal controls operating effectively.</p>	<ul style="list-style-type: none"> • Regular and timely production of accurate management accounts reviewed by budget holders and senior management. • Mechanisms for reliable budget and frequent 	<ul style="list-style-type: none"> • Review committee minutes and reports monitoring the financial position through the year, specifically any revisions to the Budget. • Carry out detailed 'cut off' testing to confirm

Audit Risk	Management assurance	Planned audit work
<p>Given the range of financial challenges facing the College, there is a risk that current arrangements are compromised and are no longer effective.</p>	<p>forecasts.</p> <ul style="list-style-type: none"> • Ongoing management of fiscal resource position and careful cash management. • Improved management of staff establishment. • SFC monitoring. • Risk Register overseen by Audit and Risk Assurance Committee. 	<p>expenditure and income has been accounted for in the correct financial year.</p>
<p>8 Governance and transparency</p> <p>There have been a number of major changes at the College since its formation in 2012, including a complete management restructuring and an ongoing programme of voluntary severance.</p> <p>In addition, the Board of Management has had to change and adapt to reflect the new College structure. A number of new members joined the Board during 2015/16.</p> <p>With all this change ongoing, there is a risk that :</p> <ul style="list-style-type: none"> • the Board does not operate effectively • governance arrangements are not effective • there could be an impact on staff morale and turnover • there could be a loss of key staff and knowledge • the College fails to deliver the courses offered in its curriculum. 	<ul style="list-style-type: none"> • The Audit and Risk Assurance Committee regularly reviews its effectiveness. • The senior management team is now well established and lines of accountability are clear. 	<ul style="list-style-type: none"> • Review ARAC self-appraisal and annual review outcomes • Review processes for ensuring Register of Interests is up to date. • Follow up to our 2010 Role of Boards Report. • Review compliance with the SFC guidance on good practice in college governance. • Review progress on workforce planning. • Review transparency of College Board and Committee papers.
<p>9 Governance and transparency</p> <p>A Transformation Plan has been developed to help the College move to a sustainable financial position, by improving operations and the delivery of core activity. It consists of 19 projects, forming four overarching programmes of work.</p> <p>There is a risk that, given the level of management change within the organisation that management do not have the capacity or capability to deliver on this essential project.</p>	<ul style="list-style-type: none"> • Progress is being made on the Transformation Plan. • The Policy and Resources Committee provides governance of the Transformation Plan on behalf of the College's Board of Management, and considers progress reports at every committee meeting. • The Strategic Programme Board, chaired by the Principal, meets every eight weeks and membership includes Programme leads. • The Strategic Programme Board provides high level 	<ul style="list-style-type: none"> • Review internal work on the progress of the Transformation Plan. • Monitor progress on the Transformation Plan and its four programmes including workforce planning. • Monitor action taken to ensure achievement of Plan targets.

Audit Risk	Management assurance	Planned audit work
	<p>governance of the Transformation Plan.</p> <ul style="list-style-type: none"> • There are programme boards for the four Transformation Plan programmes, which meet between every one to two months. • Improvement in reporting updates to the risk register. 	

National Fraud Initiative

5. The National Fraud Initiative (NFI) is a data-matching exercise led by Audit Scotland to aid the detection of fraudulent payments. NFI allows public bodies to investigate matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

6. The current data matching exercise was due to collect data from the College in October 2016. Due to an oversight, data was submitted in early February 2017. Match investigation work will commence in due course. We shall monitor the College's participation and progress with NFI. We shall report progress in our Annual Audit Report, which will be presented to the Audit and Risk Assurance Committee in November 2017.

Reporting arrangements

7. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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

9. We will provide an independent auditor's report to the Board of Management of Edinburgh College, the Auditor General for Scotland and the Scottish Parliament summarising the results of the audit of the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Audit and Risk Assurance Committee Date
Annual Audit Plan	13 April 2017	20 April 2017
Interim Management Letter	24 May 2017	31 May 2017
Annual Audit Report including ISA 260 requirements	By 16 November 2017	23 November 2017

Audit Output	Target date	Audit and Risk Assurance Committee Date
Signed Independent Auditor's Report	As soon as possible following Board meeting	N/A

Audit fee

10. The *proposed* audit fee for the 2016/17 audit of Edinburgh College is £29,220 (2015/16: £28,752). In determining the audit fee we have taken account of the risk exposure of Edinburgh College, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 25 September 2017.

11. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit and Risk Assurance Committee and Accountable Officer

12. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

13. The audit of the financial statements does not relieve management or the Audit and Risk Assurance Committee, as those charged with governance, of their responsibilities.

Appointed auditor

14. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

15. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

16. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Edinburgh College and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Edinburgh College will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

17. We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of Edinburgh College and its expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income.

Materiality

18. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for Edinburgh College are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017 based on projected outturn at 31 December 2016.	£687,000
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of planning materiality.	£344,000
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 3% of planning materiality.	£21,000

19. We review and report on other information published with the financial statements. This includes the performance and accountability reports which incorporate the annual governance statement and remuneration report. Any issues identified will be reported to the Audit and Risk Committee.

Timetable

20. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Assurance Committee dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited Edinburgh College's financial statements with complete working papers package	25 September 2017
Latest date for final clearance meeting with Chief Operating Officer	10 November 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	16 November 2017
Independent auditor's report signed	By 31 December 2017

Internal audit

21. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Scott Moncrieff.

Adequacy of Internal Audit

22. As Scott Moncrieff are the internal auditors for a number of shared clients with Audit Scotland, we have completed a central review of the adequacy of their work and compliance with the Public Sector Internal Audit Standards (PSIAS). We are satisfied that the internal audit function is effective, operates in accordance with PSIAS and has sound documentation standards and reporting procedures in place.

Areas of reliance

23. To support our audit opinion on the financial statements we plan to place formal reliance on aspects of the internal audit review on College compliance with SFC guidance in completing the annual return on student activity.

24. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Priority based budgeting and management accounting
- Financial management
- Programme governance
- EMA, bursaries and student support funds
- Establishment management.

Audit dimensions

25. As noted at paragraph 1 above, we are required to meet the wider scope requirements of public sector audit which are outlined in the Code of Audit Practice.

26. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#). As part of our responsibility to report on the four audit dimensions, we have identified specific areas of audit work for 2016/17 and these are outlined in Exhibit 1 above. We shall undertake further work over our five-year audit appointment.

Exhibit 5

Audit dimensions



Financial sustainability

27. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the College's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We shall review selected aspects over our five-year audit appointment and conclude on the following:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether Edinburgh College can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

28. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

29. We will review, conclude and report on the following over our five-year appointment:

- whether Edinburgh College has arrangements in place to ensure systems of internal control are operating effectively
- whether Edinburgh College can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how Edinburgh College has assured itself that its financial capacity and skills are appropriate
- whether the College has established appropriate and effective arrangements for the prevention and detection of fraud and corruption. We shall consider the College's response to the NFI exercise.

Governance and transparency

30. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on the following over our five-year appointment:

- whether Edinburgh College can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

31. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on the following over our five-year appointment:

- whether Edinburgh College can provide evidence that it is demonstrating value for money in the use of its resources
- whether the College can demonstrate that there is a clear link between money spent, output and outcomes delivered

- whether Edinburgh College can demonstrate that outcomes are improving
- whether there is sufficient focus on improvement and the pace of it.

Independence and objectivity

32. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

33. The engagement lead for Edinburgh College is Gordon Smail, Assistant Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Edinburgh College.

Audit team

34. The local audit team will be led by the Senior Audit Manager, Helen Russell, who will be responsible for the overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly planned, resourced and concluded within time. Joanna Stevenson, Senior Auditor will lead the audit team and will be the main client contact for the audit of the financial statements and governance. The audit team will be supplemented by additional staff during peak times.

Quality control

35. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

36. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

37. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Edinburgh College

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