

Audit Strategy Memorandum

West College Scotland



For the year ended 31 July 2017



Contents

| | |
|---|-----------|
| Executive summary | 3 |
| Audit scope and approach | 4 |
| Significant risks and key judgements | 6 |
| Timetable and communication..... | 6 |
| Fees | 10 |
| Our team..... | 11 |
| Appendix A – Service organisations and experts | 13 |
| Appendix B – Independence | 14 |
| Appendix C - Materiality | 15 |
| Appendix D – Our added value | 16 |

This report has been prepared in accordance with our responsibilities as appointed auditors as set out in Audit Scotland’s *Code of Audit Practice* (‘the Code’). Reports and letters prepared by appointed auditors and addressed to the College are prepared for the sole use of the College and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

Executive summary

Purpose of this report

The Audit Strategy Memorandum sets out our audit plan in respect of the audit of West College Scotland ('the College') for the year ending 31 July 2017, and forms the basis for discussion at the Audit Committee meeting on 8 June 2017.

The plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as overseeing the strategic direction of the College and obligations related to the accountability of the College, including overseeing the financial reporting process. We have determined that the Audit Committee are those charged with governance for the purpose of our audit.

| | |
|-------------------------------------|---|
| Timing of our work | <p>Our audit will be delivered in four main phases as outlined in page 8 of this report. The statutory deadline for the completion of our audit work is 31 December 2017.</p> |
| Financial Statements audit | <p>Significant risks</p> <p>We have identified the following areas on which we will carry out specific audit procedures to mitigate the risks of material misstatements in the College's financial statements.</p> <ul style="list-style-type: none">• Management override of controls• Revenue recognition <p>Materiality</p> <p>At the planning stage of the audit we have set an overall materiality level for the financial statements as a whole at £1.1m. Consequently, performance materiality for the audit has been assessed as £880,000. Performance materiality is the level at which we will base our audit testing, depending on the level of inherent risk assessed in the area being tested</p> <p>We do not report identified misstatements below a clearly trivial level. We have set this level at £33,000.</p> <p>These figures have been based on the expenditure recorded in the 2015-16 audited accounts and our understanding that expenditure is unlikely to be significantly different in 2016-17. We will reconsider our assessment of materiality levels on receipt of 2016-17 draft financial statements. Further details of our consideration of materiality are at Appendix C on page 15 of this report.</p> |
| Wider Scope Responsibilities | <p>Significant risks</p> <p>At this stage of our audit work, we have not identified any significant risks that would impact on the four areas of wider scope work set out by the Code of Audit Practice.</p> |
| Independence | <p>We have considered any actual, potential or perceived threats to our independence on page 14. We have not identified any such threats at this stage of the audit.</p> |

Audit scope and approach

The scope of our work

The Auditor General for Scotland has appointed Mazars LLP as the auditor of West College Scotland ('the College') under the Public Finance and Accountability (Scotland) Act 2000. The appointment is for five years from 2016-17. This is our first year of appointment.

Opinion on the financial statements

We are responsible for forming and expressing an opinion on the financial statements. Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the College for the year.

When forming our opinion we will also consider whether:

- The accounts have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 ('the SORP'); and
- The accounts comply with the Government Financial Reporting Manual 2016-17 (FReM) where applicable.

We have a further responsibility for forming and expressing an opinion on the regularity of the financial statements. We will consider whether expenditure incurred and income applied was in accordance with guidance issued by the Scottish Funding Council and Scottish Ministers.

Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Our responsibilities

Auditors and audited bodies' responsibilities are set out in Audit Scotland's Code of Audit Practice ('the Code'). The Code sets out our responsibilities in relation to auditing the financial statements and also our wider scope responsibilities. Our wider scope responsibilities relate to the following areas:

- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

Our approach to our wider scope work is set out on page 7 of this report.

Our response to the risk of fraud

International Standards on Auditing (ISAs) require us to obtain reasonable assurance that the financial statements are free from material fraud and/or error. There are a range of ways in which fraud may arise in the context of your financial statements and we formally consider the risk of fraud as part of our planning work and design appropriate procedures to mitigate risks identified. We maintain an appropriate level of professional scepticism throughout the audit and are mindful that a material misstatement due to fraud is possible, however our audit should not be relied upon to identify all such misstatements.

Management and the Audit Committee, as those charged with governance also have responsibilities in respect of fraud. They are responsible for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with laws and regulations.

We will make enquire of the Audit Committee as part of our audit with our enquiries focusing on:

- What role the Audit Committee has in relation to fraud and how it is kept informed of fraud related matters by management;
- What anti-fraud measures you have in place and how your policies and procedures are monitored; and
- Whether you are aware of any actual, alleged or suspected fraud.

We will formally write to you, in your role as those charged with governance, making the above enquiries, towards the end of the audit cycle.

The College is taking part in the National Fraud Initiative 2016-17 (NFI). Information has been submitted and potential matches have been returned for review and investigation. As part of our audit we will report to Audit Scotland on the College's participation and progress on NFI by 30 June 2017. We will also report on progress to those charged with governance in our Audit Completion Report.

Our use of experts and other auditors

Management and auditor experts

There are material entries in your financial statements which are provided by management experts. For some of these entries, we will use our own expert to provide us with the assurance we require in relation to the work of your expert.

In addition to setting out information in respect of service organisations, Appendix A also summarises management's experts and our planned audit approach to obtaining assurance over their work.

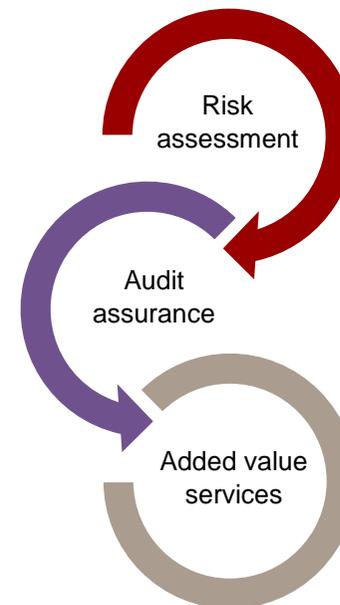
Internal audit

Where appropriate, we will seek to rely on work performed by internal audit where it provides us with the required assurance. We will meet with internal audit to discuss their work programme and findings, and factor this in when determining the most efficient testing strategy.

Where we intend to rely on the work of internal audit, we will evaluate their work and perform our own audit procedures to determine its adequacy for our audit.

Audit efficiency and our use of IT

Innovative and integrated use of IT drives the efficiency and effectiveness of our audit. Your audit team uses the latest IT-based audit solutions and is supported by a team of IT auditors each of who have extensive knowledge of the public sector and providing assurance and advisory services across the public sector.



We know that all organisations are different and face different risks. Our audit platform is modern and flexible and allows us to tailor our audit approach to the specific risks relevant to the College, while ensuring compliance with underlying auditing standards.

We focus on the risks to your business continuity and those that give rise to a risk of material misstatement in the financial statements. Your audit team has access to a full suite of data analytics tools which allow them to determine the most effective and efficient testing strategy using IT-audit techniques where appropriate.

Significant risks and key judgements

Identified significant risks to the financial statements

As part of our planning procedures we have considered whether there are risks of material misstatement in the College's financial statements that require special audit consideration. Although we report identified significant risks at the planning stage of the audit, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to mitigate these risks. Where we identify any significant risks in addition to those set out below, we will report these to the Audit Committee as part of our Audit Completion Report.

At the point of writing this report, we have not reviewed and documented systems relating to key transaction streams. Should any significant risks be identified during this work, it will be reported to the Audit Committee as part of our Audit Completion Report.

| Significant risk | How we will mitigate the risk |
|---|---|
| <p>Management override of control</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p> | <p>We will address this risk through performing audit work over:</p> <ul style="list-style-type: none"> • Accounting estimates impacting amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. |
| <p>Error in revenue recognition</p> <p>There is a presumption under International Standards on Auditing that there is a significant risk of fraud and error in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements as to when grant income should be recognised and if clawback conditions apply to the funding.</p> | <p>We will address this risk through performing audit work over:</p> <ul style="list-style-type: none"> • the design and implementation of controls management has in place to ensure income is recognised in the correct period; • cash receipts around the year end to ensure they have been recognised in the right year; • the judgements made by management in determining when grant income is recognised; and • for major grant income, obtaining counterparty confirmation. |

At the point of writing, the outcome and impact of National Bargaining is not known and whether it will have a direct financial implication for the College that would require to be recorded in the 2016-17 financial statements. We will continue to monitor the outcome of the agreement and the expected value of any settlement.

Wider scope work

We are required by the Code, to conclude and make a judgement on the four dimensions of wider scope work. We set out below the work we intend to perform to reach these judgements.

| Dimension | Scope | Audit Approach |
|------------------------------------|---|---|
| Financial sustainability | Extending the going concern assumption from the financial statements, looking forward two to five years, reviewing and assessing arrangements for financial planning and affordable and sustainable service delivery in this timescale. | <p>We intend to consider:</p> <ul style="list-style-type: none"> the financial planning system in place for short, medium and long term periods the adequacy and accuracy of financial reporting arrangement the reasonableness of assumptions made. |
| Financial management | Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. | <p>We intend to consider:</p> <ul style="list-style-type: none"> the monitoring of the effectiveness of internal control arrangements whether the College's budgetary control system is timely and accurate whether and how the college has assessed their financial capacity and skills whether the College's arrangements for the prevention and detection of fraud and corruption are appropriate. |
| Governance and transparency | Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information | <p>We intend to consider:</p> <ul style="list-style-type: none"> the governance framework at the College is operating effectively, considering scrutiny and challenge of key decisions the quality and timeliness of information supplied to those charged with governance risk management arrangements. |
| Value for money | Value for money concerns using resources effectively and continually improving services. | <p>We intend to consider:</p> <ul style="list-style-type: none"> the College's evidence of providing value for money the focus on improving value for money and the pace of change at the College. |

Identified significant risks to our wider scope work

We have also considered, as part of our planning whether there are significant risks that would impact in any of the four areas of our wider scope work that require special audit consideration. At the planning stage we have not identified any significant risks to our wider scope audit. Should this change, we will report these to the Audit Committee as part of our Audit Completion Report.

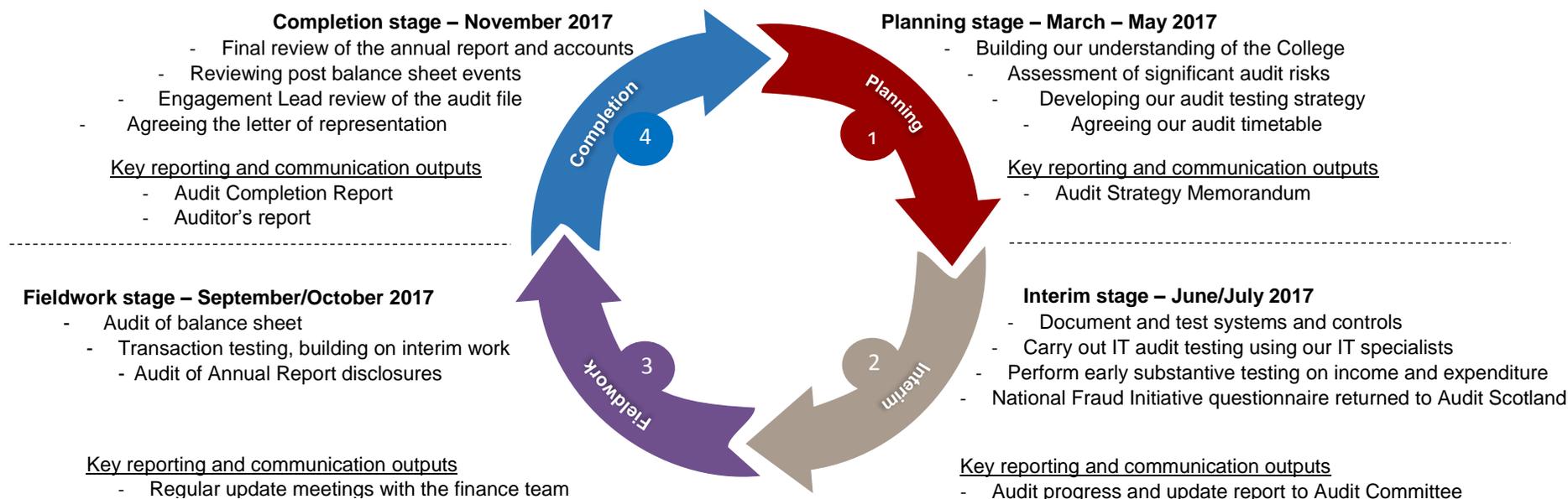
Timetable and communication

Our approach to communication

International Standards on Auditing require us to communicate a number of matters with you at various points during the audit cycle. Later in this section we outline exactly how we will communicate with the Audit Committee as those charged with governance. As well as being an integral part of our responsibilities under auditing standards, we see two-way communication with the Audit Committee and the College's staff as being critical to building a robust knowledge of your business, the risks and challenges you face and the plans you have in place to meet those challenges.

Audit timetable

The diagram below outlines the main phases of your audit, when each will be carried out and the outputs that you will receive at each stage. This is underpinned by a 'no surprises' approach to communication that ensures management and the Audit Committee are kept aware of significant issues on a timely basis. Our audit plan has been submitted to the 8 June Audit Committee. We intend to issue our Audit Completion Report to the Audit Committee scheduled to take place on 22 November 2017.



Key communication points

ISA 260 'Communication with those charged with governance' and ISA 265 'Communicating deficiencies in internal control to those charged with governance and management', require us to communicate a number of matters to you. These matters are set out below.

| Matter to be communicated | Audit Strategy Memorandum | Audit Completion Report |
|--|---------------------------|-------------------------|
| Our responsibilities in relation to the audit of the financial statements and our wider responsibilities | ✓ | |
| Planned scope and timing of the audit | ✓ | |
| Significant audit risks and areas of management judgement | ✓ | |
| Confirmation of our independence | ✓ | ✓ |
| Responsibilities for preventing and detecting errors | ✓ | |
| Materiality | ✓ | ✓ |
| Fees for audit and other services | ✓ | |
| Significant deficiencies in internal control | | ✓ |
| Significant findings from the audit | | ✓ |
| Significant matters discussed with management | | ✓ |
| Conclusions on the significant audit risks and areas of management judgement | | ✓ |
| Summary of unadjusted misstatements | | ✓ |
| Management representation letter | | ✓ |
| Our proposed audit report | | ✓ |

In addition to the matters outlined above which we are required to communicate under auditing standards, we also communicate regularly with the Audit Committee through our Audit Progress Reports, presented on a regular basis. We also report to the College on an annual basis to summarise our work and main conclusions through our Audit Completion Report.

Other Matters

Independent Auditor's Report

There have been updates to ISA 700 (Forming an Opinion and Reporting on Financial Statements) during 2017 and as a result there will be a number of changes to the independent auditors report included in the 2016-17 annual report and accounts. While we await guidance from Audit Scotland, we expect that to meet the ISA requirements, the Independent Auditors Report will be extended to include a description of 'Key Audit Matters', positive confirmation on the going concern assumption used in the accounts and confirmation of how materiality has been assessed and applied.

'Key Audit Matters' are those matters that were of the most significance in our audit of the financial statements. Significance is most likely to be determined by the identification of a matter as a significant audit risk of material misstatement, but we are also required to consider the areas of work that required the greatest audit effort.

A draft of the proposed audit report will be shared with management as part of the final audit process and will also be included in our Audit Completion Report for the consideration of the Audit Committee.

Fees

Fees for work as the College's appointed auditor

Audit Scotland has set a fee range for the external audit of the College between £26,091 and £31,889, with a mid-point fee of £28,990. We are proposing the mid-point fee for the 2016-17 audit.

| Area of work | 2016/17 proposed fee £ | 2015/16 final fee* £ |
|--------------------------------------|------------------------------|----------------------------|
| Auditor remuneration | 25,900 | |
| Pooled costs | 1,620 | |
| Contribution to Audit Scotland costs | 1,470 | |
| Total fee | 28,990 | 30,000 |

* - audit not performed by Mazars LLP. No fee breakdown is available for 2015/16.

The fee proposed presumes that we will receive a high quality set of draft accounts, supported by working papers. Should we be required to perform significant levels of additional audit work, or face significant delays in our audit, we will discuss with management the impact of this on our proposed fee.

Our team

Lucy Nutley – Director

Email: lucy.nutley@mazars.co.uk

Phone: 0738 724 2052

Lucy is the Engagement Lead for the audit and will be the key point of contact for the Audit Committee. She will have overall responsibility for delivering a high quality audit to the College. Lucy will be responsible for the opinions given on the financial statements and will liaise with the Director of Finance and Estates and Head of Finance and Student Funding. She will attend Audit Committee meetings, and where appropriate, Board meetings.

Rob Walker – Senior Manager

Email: rob.walker@mazars.co.uk

Phone: 07912 763085

Rob will manage and coordinate the audit and be the key point of contact for the Director of Finance and Estates and Head of Finance and Student Funding, as well as liaising with Internal Audit. Rob will oversee completion of audit work to a high standard and attend Audit Committees as appropriate.

Lucy and Rob will be supported by a team of auditors drawn from our Glasgow and Edinburgh offices. This will include a team leader who will be responsible for reviewing the work of more junior members of the team and performing the audit work in more specialised areas.

Appendix A – Service organisations and experts

Experts

The College also uses experts to provide entries in its financial statements. The table below outlines the areas of the financial statements where we expect the College to use experts and an explanation of the approach we will take to obtaining assurance over those entries.

| Financial statement area | Management's expert | Planned audit approach |
|---|----------------------------|--|
| Defined benefit pension liability and associated accounting entries and disclosures required by FRS 102 | Actuary – Hymans Robertson | We will consider the reasonableness of the actuarial assumptions made, referring to our in-house pension scheme experts. |

Appendix B – Independence

We are required by the Financial Reporting Council to confirm to you at least annually in writing, that we comply with the Auditing Practices Board's Ethical Standards. In addition we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you, and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement, there are no relationships between us, and any of our related or subsidiary entities, and you, and your related entities, creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team who are required to rotate off a client after a set number of years; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with either Lucy Nutley or Rob Walker.

Prior to the provision of any non-audit or audit related services, Lucy Nutley will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. No threats to our independence have been identified.

Appendix C - Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit.

Whilst planning our audit, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.

Appendix D – Our added value

Our primary responsibilities as the College’s external auditor are outlined in the main body of this report. As your external auditor we are ideally placed to provide added value in delivering those responsibilities and the diagram below provides a summary of how we do this.

