



# **2015/16 independent auditor's reports (further education)**

## **Technical guidance note 2016/9(FE)**



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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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# Foreword

Technical guidance notes are prepared by Audit Scotland's Technical Services Unit (TSU) to provide external auditors appointed by the Accounts Commission and Auditor General for Scotland with guidance on particular subjects or themes relevant to their audit appointment. They cover auditors' responsibilities to audit and report on the annual accounts, and review returns for whole of government accounts and local authority grant claims.

Technical guidance notes are available to external auditors from Audit Scotland's *Technical reference library*, and are also published on the Audit Scotland website so that audited bodies and other stakeholders can access them.

This particular type of technical guidance note is approved by the Assistant Auditor General and provides guidance on reporting the audit of the annual accounts, including model independent auditor's reports.

While auditors act independently, and are responsible for their own conclusions and opinions, the TSU has a role in ensuring that those conclusions and opinions are reached on the basis of informed judgement. Consistency in similar circumstances is important and **the Code of audit practice therefore states that auditors should follow TSU guidance**. Auditors should advise the TSU promptly if they intend not to follow any guidance provided in this technical guidance note.

Audit Scotland makes no representation as to the completeness or accuracy of the contents of technical guidance notes or that legal or technical guidance is correct. Points of law, in particular, can ultimately be decided only by the Courts. Audit Scotland accepts no responsibility for any loss or damage caused as a result of any person relying upon anything contained in this note.

# 1 Introduction

## Introduction

1. External auditors are required to provide opinions on further education colleges' annual report and accounts in an independent auditor's report.
2. *ISA (UK&I) 700 The independent auditor's report on financial statements (ISA 700)* establishes standards on the form and content of the independent auditor's report. The Financial Reporting Council's (FRC) *Bulletin 2010/2 (Revised) Compendium of illustrative auditor's reports on United Kingdom private sector financial statements etc* provides examples to illustrate the requirements of ISA 700 for the private sector.
3. The [Code of audit practice](#) states that model forms of independent auditor's reports will be provided to public sector auditors by Audit Scotland.

## Purpose of technical guidance note

4. The purpose of this technical guidance note from the TSU is to provide those auditors with sign-off responsibilities with the model independent auditor's reports which should be used for the 2015/16 annual report and accounts of colleges, along with guidance on their use. The wording of the model independent auditor's reports at Appendices 1 and 2 is based on the illustrative examples issued by the FRC tailored to reflect further education sector legislation and augmented by the reporting requirements of Audit Scotland.
5. Auditors should complete the checklist at Appendix 3 for each report which provides a list of the key auditor actions set out in this technical guidance note.
6. This technical guidance note also provides a model report for summary financial information in a separate annual report at Appendix 4.

## Summary of auditor's reporting responsibilities

7. When reporting on the audit of the financial statements, auditors of colleges are required by legislation and [international standards on auditing in the UK](#) (ISAs) to
  - express an opinion on whether the financial statements give a true and fair view and are properly prepared in accordance with the 2015/16 accounts direction from the Scottish Funding Council (SFC) (see section 2)
  - express an opinion of the regularity of expenditure and income (see section 3).
8. Auditors are required by *ISA 720 (UK&I) Section A The auditor's responsibilities relating to other information in documents containing audited financial statements (ISA 720A)* to read the information that accompanies the financial statements and report where they identify inconsistencies or apparently incorrect information.
9. Auditors have other reporting responsibilities prescribed by Audit Scotland which are to

- express an opinion on whether a specified part of the remuneration and staff report has been properly prepared (see section 4)
  - express an opinion on whether the performance report is consistent with the financial statements (see section 4)
  - report conclusions on other matters by exception, including non-compliance with guidance on the preparation of the governance statement (see section 5).
10. Audit Scotland also requires auditors to provide a report on summary financial information in any separate annual report (see section 7).

## Status of model reports

**Auditors should use the model report that applies to the annual report and accounts on which they are expressing their opinions, tailored to reflect local circumstances.**

### Unqualified

11. In the interests of consistency, auditors are required to use the relevant model in the appendices to this technical guidance note as a condition of their audit appointment. The only exception is the text indicated in [square brackets] where amendments will require to be made by auditors to tailor the terminology to reflect local circumstances. These amendments are explained throughout this technical guidance note but in summary auditors should amend to match precisely the titles used by the college for the
- list of the financial statements in the introductory paragraph.
  - title of the document which contains the audited financial statements referred to in the scope paragraph, e.g. annual report and accounts.
  - name of the statement on corporate governance, e.g. governance statement.
12. It should be noted that the requirement to follow the model wording in the appendices applies to the 'Bannerman' paragraph.
13. Where the appointed auditor is a member of Audit Scotland staff, the reports should be presented in the first person singular. Firms should present the report in the first person plural.
14. If auditors consider that any other amendments are required to reflect local circumstances, they should contact the TSU.

### Qualified

15. Any proposed qualification or other modifications to any audit opinion or conclusion in the model reports, or the inclusion of 'emphasis of matter' or 'other matter' paragraphs, should be discussed with the TSU in advance of finalising the report.

## Changes in 2015/16

16. The main changes to the models are to reflect a requirement to follow chapter 5 of the *2015/16 Government financial reporting manual* (the FReM). The requirements are explained in module 6 of technical guidance note 2016/8(FE) but in summary colleges are required to prepare
  - a performance report (which has replaced the operating and financial review)
  - an accountability report, which includes the governance statement and the renamed remuneration and staff report. It should also include the independent auditor's report.
17. Other changes include
  - additional clarification in some areas as a result of the findings from a review of the 2014/15 reports
  - guidance on the positioning of the independent auditor's report has been added at paragraph 93.

## Contact point

18. The contact points for this technical guidance note are
  - Paul O'Brien ([pobrien@audit-scotland.gov.uk](mailto:pobrien@audit-scotland.gov.uk) or 0131 625 1795).
  - Neil Cameron ([ncameron@audit-scotland.gov.uk](mailto:ncameron@audit-scotland.gov.uk) or 0131 625 1797).
  - Helen Cobb ([hcobb@audit-scotland.gov.uk](mailto:hcobb@audit-scotland.gov.uk) or 0131 625 1901).



# 2 Opinion on financial statements

## Purpose of section

19. This section provides guidance on the paragraphs in the independent auditor's report that relate to expressing an opinion on the financial statements.

## Overview

20. Auditors are required to express an opinion on whether the financial statements give a true and fair view and are properly prepared in accordance with the accounts direction issued by the SFC under the *Further and Higher Education (Scotland) Act 1992*.
21. The *Code of audit practice* requires auditors to audit the financial statements in accordance with ISAs. ISA 700 requires the independent auditor's report to have a title, be properly addressed, and contain the following paragraphs in respect of the audit of the financial statements
- introductory
  - respective responsibilities
  - scope of the audit
  - opinion on the financial statements.

## Title and addressees

22. The term 'independent auditor's report' should be used in the title to clearly distinguish it from other required reports, such as the annual audit report.
23. The independent auditor's report should be addressed to the members of the board of management, the Auditor General for Scotland and the Scottish Parliament.

## Introductory paragraph

### Financial statements

**Auditors should list in the introductory paragraph the financial statement they have audited, using the precise titles used by the college.**

24. Auditors are required to identify in the introductory paragraph the financial statements that they have audited. The financial statements listed in Appendices 1 and 2 are based on the requirements of the 2015 *Statement of recommended practice: Accounting for further and higher education* (2015 SORP). In the event that a college uses different names or includes

other statements, the statements listed by auditors should precisely match the statements and titles actually used by the college. Information on the financial statements is provided in section 4 of the overview module of technical guidance note 2016/8(FE).

## Reporting framework

25. The auditor's report is also required to specify the financial reporting framework that has been applied in the preparation of the financial statements. In the further education sector, the framework is United Kingdom Generally Accepted Accounting Practice (UK GAAP). Information on the financial reporting framework is provided in section 2 of the overview module of technical guidance note 2016/8(FE).

## 'Bannerman' paragraph

26. The model wording contains a paragraph immediately after the introductory paragraph to recognise the judgement in the case of *Royal Bank of Scotland v Bannerman Johnstone Maclay*, which highlighted the potential exposure of auditors to third parties who assert that they rely on audit reports where auditors have not expressly disclaimed responsibility to those third parties.
27. The model wording for the 'Bannerman' paragraph explains that the report is made solely to the parties to whom it is addressed and that auditors do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties. The dispensation which allowed auditors to make minor amendments to this wording in previous years no longer applies.

## Respective responsibilities paragraph

28. ISA 700 requires the report to state that those charged with governance (i.e. the college's board of management) are responsible for the preparation of the financial statements and that the responsibility of the auditor is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs. The report should also state that the ISAs require auditors to comply with the Auditing Practices Board's *Ethical standards for auditors*
29. The paragraph should also refer to the respective responsibilities for the regularity of expenditure and income.

## Scope of the audit paragraph

30. ISA 700 requires the independent auditor's report to explain the scope of the audit of the financial statements. It gives the option of either cross referring to a statement on the FRC's website or to a statement included elsewhere within the annual report and accounts, or including a description of the scope of an audit set out in the ISA.
31. The model reports in Appendices 1 and 2 remove the first two options and specify the wording of the description that should be included. The model wording explains that an audit of the

financial statements in the further education sector includes obtaining evidence on the regularity of expenditure and income.

**Auditors should use the precise title for the document containing the financial statements.**

32. The wording also explains that auditors read all the financial and non-financial information in the document containing the financial statements. When referring to the document in this paragraph, auditors should match precisely the title of the document used by the board (e.g. annual report and accounts).

## Opinion on financial statements paragraph

33. ISA 700 requires the independent auditor's report to contain a clear written expression of opinion on the financial statements, based on the auditor evaluating whether
- sufficient appropriate audit evidence as to whether the financial statements as a whole are free from material misstatement has been obtained
  - uncorrected misstatements are material
  - the financial statements, including the related notes, give a true and fair view.
34. Guidance on the key risks of material misstatement in the financial statements is provided by the TSU in modules 1 to 4 of technical guidance note 2016/8(FE). The guidance in the modules on the financial statement areas highlights what the TSU considers to be the main risks of misstatement in each area. It also sets out actions for each risk that auditors should undertake to assess whether the college has followed the required accounting treatment.
35. Auditors are required to clearly state their opinion on the financial statements. An unqualified opinion should be expressed only when auditors conclude that the financial statements
- give a true and fair view of the state of affairs of the college (and, where relevant, the group) for the year ended 31 July 2016, and the surplus/deficit for 2015/16
  - have been properly prepared in accordance with UK GAAP
  - have been prepared in accordance with the requirements of the direction from the SFC and legislation that applies to the preparation of the financial statements.
36. Where auditors conclude that a modification to their opinion is required, they should add a 'basis for modification' paragraph to their report in accordance with *ISA 705 (UK&I) Modifications to the opinion in the independent auditor's report (ISA 705)*.

## Basis for modification paragraph

**When auditors qualify their opinion on the financial statements, they should**

- **discuss the proposed qualification with the TSU**

- **amend the wording in the opinion paragraph**
- **include a 'basis for modification' paragraph in the auditor's report.**

37. ISA 705 deals with modifications to the auditor's opinion on the financial statements. Auditors should modify their opinion when they
- conclude that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
  - are unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
38. ISA 705 establishes three types of modified opinions, i.e. a qualified opinion, an adverse opinion, and a disclaimer of opinion. Any proposed qualification should be discussed with the TSU in advance of finalising the report. When auditors qualify their opinion on the financial statements, they should
- include a 'basis for modification' paragraph in the auditor's report that provides a description of the matter giving rise to the modification and
    - place this paragraph immediately before the opinion paragraph
    - use the heading 'Basis for qualified opinion on the financial statements' (or 'adverse opinion' or 'disclaimer of opinion', as appropriate).
  - use the heading 'Qualified opinion on the financial statements' (or 'Adverse opinion' or 'Disclaimer of opinion', as appropriate) for the opinion paragraph.

### Qualified opinion

39. Auditors should express a qualified opinion when
- having obtained sufficient appropriate audit evidence, they conclude that misstatements, are material, but not pervasive, to the financial statements (pervasive effects on the financial statements are those that are not confined to specific items of the financial statements or those that are fundamental to users' understanding); or
  - they are unable to obtain sufficient appropriate audit evidence on which to base the opinion, but conclude that the possible effects on the financial statements of undetected misstatements could be material but not pervasive.
40. Material misstatements may relate to
- specific amounts in the financial statements. Auditors should include in the 'basis for qualified opinion' paragraph a description and quantification of the financial effects of the misstatement (unless impracticable)
  - narrative disclosures. Auditors should include in the 'basis for qualified opinion' paragraph an explanation of how the disclosures are misstated
  - the non-disclosure of information required to be disclosed. Auditors should

- describe in the 'basis for qualified opinion' paragraph the nature of the omitted information; and
  - include the omitted disclosures (unless impracticable).
41. When auditors express a qualified opinion due to a material misstatement in the financial statements, they should state in the 'opinion on the financial statements' paragraph that, except for the effects of the matter described in the 'basis for qualified opinion' paragraph, the financial statements give a true and fair view.
42. Where the qualified opinion results from an inability to obtain sufficient appropriate audit evidence, auditors should
- include in the 'basis for qualified opinion' paragraph the reasons for that inability
  - state in the 'opinion on the financial statements' paragraph that, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements give a true and fair view.

### Adverse opinion

43. Auditors should express an adverse opinion when, having obtained sufficient appropriate audit evidence, they conclude that misstatements are both material and pervasive to the financial statements. Auditors should state in the 'opinion on the financial statements' paragraph that, in their opinion, because of the significance of the matter described in the 'basis for adverse opinion' paragraph, the financial statements do not give a true and fair view.

### Disclaimer of opinion

44. Auditors should disclaim an opinion when they are unable to obtain sufficient appropriate audit evidence on which to base the opinion, and they conclude that the possible effects on the financial statements of undetected misstatements could be both material and pervasive. Auditors should
- amend the 'introductory' paragraph to state that they were engaged to audit the financial statements
  - state in the 'opinion on the financial statements' paragraph that because of the significance of the matter described in the 'basis for disclaimer of opinion' paragraph, they have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion, and accordingly they do not express an opinion on the financial statements.

### Emphasis of matter paragraph

**When auditors consider it necessary to draw attention to matters that are fundamental to users' understanding of the financial statements, they should**

- **discuss the matter with the TSU**
- **include an 'emphasis of matter' paragraph in their report.**

45. *ISA 706 Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report* (ISA 706) deals with additional communication in the independent auditor's report when the auditor considers it necessary to draw users' attention to matters that are fundamental to users' understanding of the financial statements (i.e. an 'emphasis of matter' paragraph).
46. An 'emphasis of matter' paragraph refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. Auditors should
- include it immediately after the 'opinion on financial statements' paragraph
  - use the heading 'Emphasis of matter', or other appropriate heading
  - include in the paragraph a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial statements
  - indicate that the auditor's opinion on the financial statements is not modified in respect of the matter emphasised.

## Other matter paragraph

**When auditors consider it necessary to draw attention to matters that are relevant to users' understanding of the audit, or they identify other information that requires to be amended, they should**

- **discuss the matter with the TSU**
- **include an 'other matter' paragraph.**

47. ISA 706 also deals with additional communication in the independent auditor's report when the auditor considers it necessary to draw users' attention to matters that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report (i.e. an 'other matter' paragraph).
48. An 'other matter' paragraph refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.
49. In addition, auditors are required by ISA 720A to read the other information (i.e. the statements, reports and narrative in the document other than the financial statements and notes) to identify
- material inconsistencies with the audited financial statements
  - any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by auditors in the course of performing the audit.
50. This reflects auditors' responsibilities in ISA 720A which states that an inconsistency is anything in the other information that contradicts information contained in the audited financial

statements. If auditors identify that revision of the other information is necessary, and the college refuses to make the revision, auditors should report as follows

- Where there is an inconsistency in the performance report, auditors should report the matter as a qualification to the opinion on the performance report.
  - Where the inconsistency is in information outwith the performance report, auditors should report it in an 'other matter' paragraph.
51. Where the information is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by auditors in the course of performing the audit, auditors should report this also in an 'other matter' paragraph.
52. Auditors should report in an 'other matter' paragraph uncorrected misstatements identified in the other information (unless the information is in the performance report - see section 3). Any proposed 'other matter' paragraph should be discussed with the TSU in advance of finalising the report. Auditors should
- use the heading 'Other matter', or other appropriate heading
  - include this paragraph immediately after the 'opinion on financial statements' paragraph and any 'emphasis of matter' paragraph.
53. 'Other matter' paragraphs are not the appropriate vehicle to deal with the other reporting responsibilities set out in sections 3 to 5 of this technical guidance note. However, ISA 706 states that an 'other matter' paragraph may be used to draw users' attention to a matter relevant to these other reporting responsibilities. Where this is the case, the 'other matter' paragraph should be located beside the reporting responsibility to which it relates.

# 3 Opinion on regularity of expenditure and income

## Purpose of section

54. This section provides guidance on the paragraphs in the independent auditor's report that relate to expressing an opinion on the regularity of expenditure and income.

## Overview

**When auditors consider it necessary to draw attention to matters that are relevant to users' understanding of the audit, or they identify other information that requires to be amended, they should**

- **discuss the matter with the TSU**
- **include an 'other matter' paragraph.**

55. Auditors of colleges are required by section 22(1) of the 2000 Act to express an opinion on the regularity of expenditure and receipts shown in the financial statements. Although, the Act uses the term 'receipts', normal practice is to refer to 'income'.
56. Auditors are therefore required to report whether, in their opinion, in all material respects, expenditure was incurred and income applied in accordance with applicable enactments and guidance issued by the Scottish Ministers.
57. The responsibility to express an opinion on regularity is discharged through the audit of the financial statements. ISA 700 requires the opinion to be reported in a section of the independent auditor's report separate to the opinion on the financial statements. Guidance on the audit of regularity is provided by the TSU at module 5 of technical guidance note 2016/8(FE).

## Unqualified opinion

58. Where auditors do not qualify their opinion on regularity, the wording of the relevant paragraph in Appendices 1 and 2 should be used.

## Qualified opinion

**When auditors qualify their opinion on regularity, they should**

- **discuss the proposed qualification with the TSU**
- **provide a description of the matter giving rise to the qualification.**



59. If auditors are of the opinion that material expenditure was incurred or income applied that was not in accordance with applicable enactments and guidance issued by the Scottish Ministers, auditors should express a qualified opinion in respect of regularity. Any proposed qualified opinion on regularity should be discussed with the TSU in advance of finalising the report.
60. Auditors should
- include a 'Basis for qualified opinion on regularity' paragraph and provide a concise description of the matter giving rise to the qualification
  - amend the opinion heading to 'Qualified opinion on regularity', and include the phrase 'except for the effects of the matter described in the basis for qualified opinion on regularity paragraph' after 'In my opinion'.

# 4 Opinion on other prescribed matters

## Purpose of section

61. This section provides guidance on the paragraphs in the independent auditor's report that relate to expressing an opinion (i.e. positive assurance) on the specified part of the remuneration and staff report and the performance report.

## Overview

62. ISA 700 requires auditors to address other reporting responsibilities in separate sections of the independent auditor's report following the opinion on the financial statements and the opinion on regularity.
63. Auditors are required to express opinions on the remuneration and staff report and the performance report in a section under the heading 'Opinion on other prescribed matters' using the wording in Appendices 1 and 2. Where one of the opinions is qualified, each opinion should be dealt with separately under its own heading as explained at paragraphs 63 and 67.

## Opinion on remuneration and staff report

### Introduction

64. The accounts direction requires colleges to prepare a remuneration and staff report in compliance with the requirements of the *Government financial reporting manual (FReM)*.

### Auditors' responsibilities

65. In line with *Companies Act 2006* requirements, auditors are required by the *Code of audit practice* to audit part of the remuneration and staff report and express a separate opinion within their independent auditor's report on whether it has been properly prepared.
66. Module 6 (section 3) of technical guidance note 2016/8(FE) provides guidance for auditors on the part of the remuneration and staff report that requires to be audited. The remainder of the disclosures form part of the other information read by auditors under ISA 720A

### Unqualified opinion

67. Where auditors do not qualify their opinion on the remuneration and staff report, the wording of the relevant paragraph in Appendices 1 and 2 should be used unchanged.

### Qualified opinion

**When auditors qualify their opinion on the remuneration and staff report, they should**

- **discuss the proposed qualification with the TSU**
- **amend the heading of the section**
- **provide a description of the matter giving rise to the qualification.**

68. Any proposed qualified opinion on the remuneration and staff report should be discussed with the TSU in advance of finalising the auditor's report. Where auditors express a qualified opinion on the remuneration and staff report, they should
- include the opinion in its own section using the heading 'Qualified opinion on the remuneration and staff report'
  - provide a concise description of the matter giving rise to the qualification
  - include the opinion on the performance report in its own section using the heading 'Opinion on other prescribed matter'.

## Opinion on consistency with performance report

### Introduction

69. The accounts direction requires colleges to prepare a performance report in compliance with the FReM.

### Auditors' responsibilities

70. In line with the *Companies Act 2006*, Audit Scotland requires auditors to express an opinion in the independent auditor's report as to whether the information given in the performance report is consistent with the financial statements. Module 6 (section 2) of technical guidance note 2016/8(FE) provides guidance for auditors.
71. *ISA 720 (UK&I) Section B The auditor's statutory reporting responsibility in relation to directors' reports* applies to this reporting responsibility. It explains that inconsistencies include
- differences between amounts or narrative appearing in the financial statements and the performance report
  - differences between the bases of preparation of related items where the figures are not directly comparable and the different bases are not disclosed
  - contradictions between figures in the financial statements and the narrative explanation of those figures in the performance report.
72. The opinion should cover any required information that is included by way of a cross-reference to information presented separately from the performance report.
73. Auditors should also read the performance report under ISA 720A.

### Unqualified opinion

74. Where auditors do not qualify their opinion on the performance report, the wording of the relevant paragraph in Appendices 1 and 2 should be used unchanged.

## Qualified opinion

**When auditors qualify their opinion on the performance, they should**

- **discuss the proposed qualification with the TSU**
- **amend the heading of the section**
- **provide a description of the matter giving rise to the qualification.**

75. If auditors are of the opinion that the information in the performance report is materially inconsistent with the financial statements, and have been unable to resolve the inconsistency, auditors should express a qualified opinion in respect of the performance report. Any proposed qualified opinion on the performance should be discussed with the TSU in advance of finalising the report.
76. Auditors should
- include the opinion in its own section using the heading 'Qualified opinion on the performance report'
  - provide a concise description of the matter giving rise to the qualification, finishing with the sentence 'Except for this matter, in our opinion the information given in the performance report is consistent with the financial statements'
  - include the opinion on the remuneration and staff report in its own section using the heading 'Opinion on other prescribed matter'.
77. Auditors are not required to verify, or report on, the completeness of the information in the performance report. If, however, auditors become aware that required information has been omitted, auditors should communicate the matter to the college's board of management. This includes situations where the required information is presented separately from the performance report without appropriate cross-references.

# 5 Matters reported on by exception

## Purpose of section

79. This section provides guidance on the paragraphs in the independent auditor's report that relate to reporting on the governance statement and other matters reported on by exception.

## Overview

80. Where auditors are required to report on certain matters by exception, ISA 700 requires auditors to describe their responsibilities under the heading 'Matters on which we are required to report by exception', and incorporate a suitable conclusion in respect of such matters.
81. Audit Scotland requires auditors of colleges to report by exception (i.e. a positive statement is not required) on the matters explained in the following paragraphs.

## Review of annual governance statement

**Auditors should review the governance statement and report within their independent auditor's report any non-compliance with relevant requirements.**

82. Colleges are required to publish a statement covering the responsibilities of their boards of management in relation to corporate governance. Auditors are required by the *Code of audit practice* to review the governance statement and report by exception any non-compliance with relevant sectoral guidance.
83. For colleges, the requirements and guidance are set out in the accounts direction. Module 6 (section 4) of technical guidance note 2016/8(FE) provides guidance for auditors.
84. Audit Scotland does not require appointed auditors in the public sector to express an opinion on whether the information given in the governance statement is consistent with the financial statements. Any material inconsistencies should be reported as an 'other matter' paragraph in accordance with ISA 720A.
85. Colleges are not required to report compliance with the *UK Corporate governance code*. If a college makes a reference in the governance statement to that code, auditors should contact the TSU as this would trigger additional reporting requirements under ISA 720A.

## Other matters reported by exception

**Auditors should report if**

- **adequate accounting records have not been kept**

- **the financial statements and the part of the remuneration and staff report to be audited are not in agreement with the accounting records**
- **they have not received all the information and explanations required for the audit.**

86. *The Charities Accounts (Scotland) Regulations 2006* requires the auditors of charities, including colleges, to report if, in their opinion
- adequate accounting records have not been kept
  - the financial statements and the part of the remuneration and staff report to be audited are not in agreement with the accounting records
  - they have not received all the information and explanations required for the audit.

### **Suitable conclusion on matters reported by exception**

**When auditors consider there is a matter to be reported by exception, they should**

- **discuss the matter with the TSU**
- **amend the wording of the section**
- **provide a description of the matter being reported.**

87. Auditors should report a suitable conclusion on matters reported by exception. Where auditors have nothing to report, they should use the conclusion wording in Appendices 1 and 2 which is 'I/we have nothing to report in respect of these matters'.
88. Where auditors consider there is a matter to be reported, they should discuss it with the TSU in advance of finalising the auditor's report. Where there is a matter to report, auditors should
- modify the conclusion to 'I/We have the following to report in respect of these matters'.
  - provide a concise description of the matter being reported
  - finish with the sentence 'I/We have nothing to report in respect of the other matters'.

# 6 Signing and dating independent auditor's reports

## Purpose of section

89. This section provides guidance on signing and dating the independent auditor's reports, as well as its recommended positioning in the document.

## Overview

### Auditors should

- **sign and date the report on or after the authorised for issue date**
- **sign the report on behalf of the firm (firms only)**
- **give the full date and postal address**
- **satisfy themselves that the report is appropriately positioned within the document.**

90. ISA 700 requires independent auditor's reports to state the name of the auditor and be signed and dated.

## Signing

91. For audits where the auditor is a member of Audit Scotland staff, the individual should sign the report in their own name.
92. Where the auditor is a firm, for consistency with the *Companies Act 2006*, the report should be signed in their own name by the partner or other individual who is responsible for issuing the report for and on behalf of the firm.
93. Auditors should not sign themselves as 'senior statutory auditor'.

## Dating

94. The date of the auditor's report should be the date on which the auditor actually signs the report. Auditors should give the day, month and year of their signature, e.g. 30 September 2016. Auditors should not date (and hence sign) the report earlier than the date on which the financial statements have been approved by those charged with governance (i.e. the authorised for issue date) and the auditor has considered all necessary available evidence.

95. Auditors should aim to date the report on the date the annual accounts are authorised for issue by the college. If the date on which the auditor signs the report is later than the authorised for issue date, auditors should
- obtain assurance that those charged with governance would have approved the financial statements on that later date (e.g. by obtaining confirmation from the board of management)
  - ensure that audit procedures for reviewing subsequent events cover the period up to that date.

## Address

96. ISA 700 requires the report to name the location of the office where the auditor is based. Auditors should give the full postal address of their office.

## Positioning of the independent auditor's report

97. Paragraph 5.3.28 of the FReM states that the new accountability report should include (in the parliamentary accountability and audit report section) the certificate and report of the Comptroller and Auditor General. This is the equivalent of the independent auditor's report used in Scotland.
98. Auditors should encourage colleges to locate the independent auditor's report in such a way that it is clear to users of the accounts that it is not covered by the Principal's signature.



# 7 Report on summary financial information in separate annual report

## Purpose of section

99. This section provides guidance on audit procedures to be carried out if a college chooses to also include summarised financial statements that are based on the full financial statements (or other summary financial information that is derived from the full financial statements) in a separate annual report.

## Auditors' responsibilities

100. Auditors should examine summarised financial statements/information in a separate annual report and express an opinion on the consistency with the full financial statements.

## Audit procedures

101. Auditors should

- check that there are no inconsistencies with the full financial statements by confirming that
  - the college's processes and controls for the preparation of the summarised financial statements are adequate
  - information has been accurately extracted from the full financial statements
  - the use of headings in the summarised financial statements/information are compatible with the full statements from which they are derived
  - information has been summarised in a manner which is consistent with the full statements
  - all necessary information has been included.
- include a description of any inconsistency in their report on the summary financial statements/information
- read the other information in the separate annual report to identify any material inconsistencies with the summary financial statement/information and report accordingly
- set out in the report on the summary financial statements/information any modification to any opinion in the independent auditor's report, or any 'emphasis of matter' or 'other matter' paragraph.

102. Model wording for the report is provided at Appendix 4 of the technical guidance note.

# Appendix 1

## Model independent auditor's report – further education colleges (non-group)

### **Independent auditor's report to the members of the Board of Management of [insert name of college], the Auditor General for Scotland and the Scottish Parliament**

[I/We] have audited the financial statements of [insert name of college] for the year ended 31 July 2016 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise [specify the titles of the primary statements such as the Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, and Statement of Cash Flow] and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Financial Reporting Standard (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Board of Management and auditor**

As explained more fully in the Statement of Board of Management's Responsibilities, the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. [My/Our] responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require [me/us] to comply with the Auditing Practices Board's Ethical Standards for Auditors. [I am/We are] also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the college's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and

income. In addition, [I/we] read all the financial and non-financial information in the [insert title of document containing the financial statements, e.g. annual report and accounts] to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by [me/us] in the course of performing the audit. If [I/we] become aware of any apparent material misstatements, irregularities, or inconsistencies [I/we] consider the implications for [my/our] report.

### **Opinion on financial statements**

In [my/our] opinion the financial statements:

- 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 college's affairs as at 31 July 2016 and of its surplus [deficit] for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder 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).

### **Opinion on regularity**

In [my/our] opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

### **Opinion on other prescribed matters**

In [my/our] opinion:

- the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which [I am/we are] required to report by exception**

[I am/We are] required to report to you if, in [my/our] opinion:

- proper accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- [I/we] have not received all the information and explanations [I/we] require for [my/our] audit; or

- the [insert name of statement on corporate governance, e.g. governance statement] does not comply with Scottish Funding Council requirements.

[I/We] have nothing to report in respect of these matters.

[Signature]

[Name of individual auditor], (for and on behalf of [name of firm] - firms only)

[Full postal address]

[Full date]

<Name of auditor is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006 (for firms)/section 21 of the Public Finance and Accountability (Scotland) Act 2000 (inhouse and any firm where the auditor is not eligible under the Companies Act).

# Appendix 2

## Model independent auditor's report – further education colleges (group)

### **Independent auditor's report to the members of the Board of Management of [insert name of college], the Auditor General for Scotland and the Scottish Parliament**

[I/We] have audited the financial statements of [insert name of college] and its group for the year ended 31 July 2016 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise [specify the titles of the primary statements such as the Consolidated and College Statement of Comprehensive Income, Consolidated and College Statement of Changes in Reserves, Consolidated and College Balance Sheet, and the Consolidated and College Statement of Cash Flow] and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Financial Reporting Standard (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, [I/we] do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Board of Management and auditor**

As explained more fully in the Statement of Board of Management's Responsibilities, the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. [My/Our] responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require [me/us] to comply with the Auditing Practices Board's Ethical Standards for Auditors. [I am/We are] also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the college and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall

presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, [I/we] read all the financial and non-financial information in the [insert title of document containing the financial statements, e.g. annual report and accounts] to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by [me/us] in the course of performing the audit. If [I/we] become aware of any apparent material misstatements, irregularities, or inconsistencies [I/we] consider the implications for [my/our] report.

### **Opinion on financial statements**

In [my/our] opinion the financial statements:

- 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 affairs of the college and its group as at 31 July 2016 and of their surplus [deficit] for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder 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).

### **Opinion on regularity**

In [my/our] opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

### **Opinion on other prescribed matters**

In [my/our] opinion:

- the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which [I am/we are] required to report by exception**

[I am/We are] required to report to you if, in [my/our] opinion:

- proper accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or

- [I/we] have not received all the information and explanations [I/we] require for [my/our] audit; or
- the [insert name of statement on corporate governance, e.g. governance statement] does not comply with Scottish Funding Council requirements.

[I/We] have nothing to report in respect of these matters.

[Signature]

[Name of individual auditor], (for and on behalf of [name of firm] - firms only)

[Full postal address]

[Full date]

<Name of auditor is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006 (for firms)/section 21 of the Public Finance and Accountability (Scotland) Act 2000 (inhouse and any firm where the auditor is not eligible under the Companies Act).

# Appendix 3

## Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you used the correct model for the college's circumstances (i.e. group or single)?			
2 Have you presented the reports in the correct person (i.e. singular for Audit Scotland staff, plural for firms)?			
3 In the list of financial statements in the introductory paragraph, have you listed the actual statements and precise titles used by the college?			
4 In the scope paragraph, have you used the precise title of the document containing the audited financial statements?			
5 In the conclusion on the governance statement, have you used the precise title used by the the college?			
6 Have you discussed with the TSU any other amendments required to the wording to reflect local circumstances?			
7 Have you discussed with the TSU any proposed qualifications to audit opinions or conclusions, or ISA 706 paragraphs?			
7 Have you <ul style="list-style-type: none"> <li>• signed and dated the report on or after the authorised for issue date?</li> <li>• signed the report on behalf of the firm</li> </ul>			



	Yes/No/N/A	Initials/date	W/P ref
(firms only)? <ul style="list-style-type: none"> <li>• given the full date and postal address?</li> <li>• satisfied yourself that the auditor's report is appropriately positioned?</li> </ul>			

# Appendix 4

## Model auditor's report – summary financial information

### **Independent auditor's report to the members of [insert name of college] on the summary financial information**

[I/We] have examined the summary financial information of [insert name of college] for the year ended 31 July 2016 which comprises [insert list of items comprising the summary financial information].

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, [I/we] do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Board of Management and auditor**

The Board of Management is responsible for preparing the summary financial information within the Annual Report.

[My/Our] responsibility is to report to you [my/our] opinion on the consistency of the summary financial information with the full financial statements [add the Remuneration and Staff Report and/or Performance Report where applicable].

In addition, [I/we] read the other financial and non-financial information in the Annual Report to identify material inconsistencies with the summary financial information. If [I/we] become aware of any apparent misstatements or material inconsistencies, [I/we] consider the implications for [my/our] report.

[I/We] conducted [my/our] work in accordance with the approach set out in Audit Scotland's technical guidance note 2016/9(FE). [My/Our] report on the college's full annual financial statements describes the basis of [my/our] opinion on those financial statements [add, Remuneration and Staff Report and/or Performance Report, where applicable].

### **Opinion**

In [my/our] opinion the summary financial information is consistent with the full financial statements [add, Remuneration and Staff Report and/or Performance Report, where applicable] of the college for the year ended 31 July 2016.

[I/We] have not considered the effects of any events between the date on which [I/we] signed [my/our] report on the full financial statements on [insert that date] and the date of this report.

[Signature]

[Name of auditor]

[Full postal address]

[Full date]