



2016/17 independent auditor's reports (further education)

Technical guidance note 2017/7(FE)

 **AUDIT SCOTLAND**

Prepared by Audit Strategy
3 August 2017

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 Audit Strategy business group to provide external auditors appointed by the Accounts Commission and Auditor General for Scotland with guidance to support them in meeting certain responsibilities under the *Code of audit practice*. 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 appointed auditors act independently, and are responsible for their own conclusions and opinions, Audit Strategy 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 requires auditors to report the results of the audit of the annual accounts in accordance with this technical guidance note.*** Auditors should advise Audit Strategy 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 appointed by the Auditor General for Scotland are required under the *Public Finance and Accountability (Scotland) Act 2000* (the 2000 Act) to provide opinions on further education colleges' annual report and accounts in an independent auditor's report.
2. Paragraph 94 of the *Code of audit practice* requires the independent auditor's reports to be in accordance with a technical guidance note provided by Audit Scotland.

Purpose of technical guidance note

3. The main purpose of this technical guidance note from Audit Strategy is to provide those auditors with 'sign off' responsibilities with the model independent auditor's reports which should be used for the 2016/17 annual report and accounts of colleges, along with guidance on their use.
4. Auditors should complete for each report the checklist at Appendix 3 which provides a list of the key auditor actions set out in this technical guidance note.
5. This technical guidance note also provides a model report for summary financial information at Appendix 4.

Contact point

6. The contact point in Audit Strategy for this technical guidance note is Paul O'Brien (pobrien@audit-scotland.gov.uk or 0131 625 1795).

2 Overview

Purpose of section

7. This section provides an overview of the model independent auditor's reports in Appendices 1 and 2.

Changes in 2016/17

8. The model independent auditor's reports for 2016/17 have been changed to
 - follow the revised structure and wording in *ISA (UK) 700 Forming an opinion and reporting on financial statements*
 - include new opinions in respect of the performance report and governance statement (which is no longer reported as a matter by exception).

Summary of auditor's reporting responsibilities

9. When reporting on the audit of the annual report and accounts, auditors of colleges are required by legislation and [the 2016 international standards on auditing in the UK](#) (which replace the 2009 ISAs from 2016/17) to
 - express an opinion on whether the financial statements give a true and fair view and are properly prepared in accordance with the 2016/17 accounts direction from the Scottish Funding Council
 - express an opinion of the regularity of expenditure and income
 - report conclusions on other matters by exception, including on whether proper accounting records have been kept.
10. Auditors have other reporting responsibilities prescribed by the Auditor General under the audit appointment which are to
 - express an opinion on whether the audited part of the remuneration and staff report has been properly prepared
 - express an opinion on whether the performance report is consistent with the financial statements and, as a new requirement for 2016/17, whether it has been prepared in accordance with the accounts direction
 - as a new requirement for 2016/17, express an opinion on whether the governance statement is consistent with the financial statements and has been prepared in accordance with the accounts direction.
11. An auditor's report would also be required if a college includes summary financial statements in any separate annual report.

Summary of model reports

Auditors should use the correct model report that applies to the college's circumstances.

12. The model independent auditor's reports for 2016/17 have been amended to comply with the new ISA (UK) 700, which contains a revised structure for the independent auditor's report. The models are consistent with illustrative examples issued by the Financial Reporting Council (FRC) but tailored to reflect further education sector legislation and augmented by the reporting requirements of the Auditor General for Scotland.
13. In the interests of consistency, auditors are required to use the correct model independent auditor's report in the appendices to this technical guidance note as a condition of their audit appointment.
14. Separate models have been provided to be used depending on whether a college has prepared consolidated accounts. Appendix 1 should be used where there are no group accounts, and Appendix 2 where there are. Appendix 4 should be used if the college includes summary financial statements in a separate annual report.

Changes to model wording

Auditors should follow the model wording in each report other than changes required to reflect local circumstances or where a modification to an opinion or conclusion is required.

15. Where there are no modifications to any opinion or conclusion, the wording in the relevant model should generally be used unchanged, other than to reflect local circumstances.

Permitted changes - no modifications to opinions or conclusions

16. In order to reflect local circumstances, the only exceptions to using the model wording are
 - the text indicated in the models in [square brackets]
 - other amendments to reflect local terminology.
17. Where text is in [square brackets], auditors should insert the
 - name of the college
 - precise titles used by the college for the financial statements.
18. 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.
19. Auditors may also have to make amendments to tailor the terminology to reflect local circumstances. This may include amending the names of the performance report,

remuneration and staff report, governance statement, and statement of responsibilities to the actual names used by the college.

20. If auditors consider that any other amendments are required to reflect local circumstances, they should contact Audit Strategy.

Modifications to opinions or conclusions

21. Guidance on modifying an opinion or conclusion is provided in the relevant section of this technical guidance note.
22. However, auditors are required to discuss a proposed modification to any opinion or conclusion, or the inclusion of 'emphasis of matter' or 'other matter' paragraphs, with Audit Strategy in advance of finalising the report.

Title and addressees

23. ISA (UK) 700 requires the auditor's report to have a title that clearly indicates that it is the report of an independent auditor. The title 'independent auditor's report' should be used as this complies with the requirement and also clearly distinguishes it from other required reports, such as the annual audit report.
24. ISA (UK) 700 also requires the independent auditor's report to be addressed based on the circumstances of the audit appointment. The independent auditor's report should therefore be addressed to the members of the college's board of management, the Auditor General for Scotland and the Scottish Parliament.

'Bannerman' paragraph

25. The model reports contain a paragraph immediately after the addressees 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.
26. The model '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.

Structure of model reports

27. The structure of the 2016/17 model reports at Appendices 1 and 2 has been revised to follow the structure in ISA (UK) 700. The models therefore contain the following three main headings
 - Report on the audit of the financial statements (see section 3), which has paragraphs on
 - the opinion on the financial statements
 - the basis for that opinion

- responsibilities of the board of management
- auditor's responsibilities for the financial statements
- other information in the annual report and accounts.
- Report on regularity of expenditure and income (see section 4)
- Report on other requirements, which has paragraphs on
 - opinions on other prescribed matters, i.e. the remuneration and staff report, performance report and governance statement (see section 5)
 - conclusions on matters reported on by exception (see section 6).

Signing and dating

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.**

28. ISA (UK) 700 requires independent auditor's reports to be signed and dated, and name the location of where the auditor practices.

Signing

29. For audits where the auditor is a member of Audit Scotland staff, the individual should sign the report in their own name.
30. 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.
31. Auditors should not sign themselves as 'senior statutory auditor' as that is a Companies Act requirement that has not been applied to college audits.

Dating

32. The date of the report should be the date on which the auditor actually signs the report. Auditors should give the correct day, month and year of their signature, e.g. 30 September 2017. Auditors should not date (and hence sign) the report earlier than the date on which the accounts have been approved by those charged with governance (i.e. the authorised for issue date) and the auditor has considered all necessary available evidence.

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33. Auditors should aim to date the report on the date the financial statements 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 Principal)
 - ensure that audit procedures for reviewing subsequent events cover the period up to that date.

Address

34. Auditors should state in the independent auditor's report the full postal address of their office.

Positioning of the independent auditor's report

35. Paragraph 5.3.28 of the FReM states that the 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.
36. 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.

3 Report on the audit of the financial statements

Purpose of section

37. This section provides guidance on the part of the independent auditor's report that relates to expressing an opinion on the financial statements.

Auditor's responsibilities

38. Auditors are required to express an opinion on whether a college's financial statements, and those of its group where applicable, 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*.

Opinion on financial statements

Financial statements

Auditors should list the financial statements they have audited, using the precise titles used by the college.

39. Auditors are required by ISA (UK) 700 to identify the title of each statement that comprises the financial statements. The financial statements listed in Appendices 1 and 2 are based on the requirements of, and titles used by, the *2015 Statement of recommended practice: Accounting for further and higher education (2015 SORP)*.
40. In the event that a college uses different names or includes other statements, the statements listed by auditors in the independent auditor's report should precisely match the statements and titles actually used by the college. In previous years, there were a number of instances where the titles used by auditors did not precisely match those used by the college which makes it difficult for a user of the accounts to clearly understand the statements that have been audited.

Reporting framework

41. The independent auditor's report refers to the financial reporting framework that has been applied in the preparation of the financial statements.
42. In the further education sector, the framework is United Kingdom Accounting Standards, including FRS 102 (UK GAAP). Information on the financial reporting framework is provided in section 2 of the overview module of technical guidance note 2017/6(FE).

Opinion on financial statements

43. As a change in 2016/17, in order to follow the structure in ISA (UK) 700, the paragraphs on the opinion on the financial statements have been relocated to the first section of the model reports.
44. Guidance on the risks of material misstatement in the financial statements is provided by Audit Strategy in Technical guidance note 2017/6(FE). The guidance in the modules on the financial statement areas highlights what Audit Strategy 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.
45. An unqualified opinion should be expressed only when auditors conclude that the financial statements
 - give a true and fair view of the state of the college's affairs (and, where relevant, the group) for the year ended 31 July 2017, and the surplus or deficit for 2016/17
 - have been properly prepared in accordance with UK GAAP
 - have been prepared in accordance with the requirements of the accounts direction.
46. Where auditors do not qualify their opinion on the financial statements, the wording in that part of Appendices 1 and 2 should be used unchanged (other than to reflect terminology used by the college).

Basis of opinion

47. As a change in 2016/17, in order to follow the structure in ISA (UK) 700, there is a new paragraph in the model reports setting out the basis of the opinion.
48. Where auditors do not qualify their opinion on the financial statements, the wording for the basis of opinion paragraph in Appendices 1 and 2 should be used unchanged.

Modified opinions

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

- discuss the proposed qualification with Audit Strategy
- amend the headings and wording in the opinion and basis of opinion paragraphs
- include a description of the matter giving rise to the qualification.

49. *ISA 705 (UK) Modifications to the opinion in the independent auditor's report* establishes three types of modified opinions, i.e. a qualified opinion, an adverse opinion, and a disclaimer of opinion. 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.

50. Where auditors judge it necessary to express a modified opinion on the financial statements, they should change the model wording as explained in the following paragraphs.

Qualified opinion

51. Auditors should express a qualified opinion on the financial statements 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.

52. 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).

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

- amend the heading 'Opinion on financial statements' to 'Qualified opinion on financial statements'
- amend the heading 'Basis for opinion' to 'Basis for qualified opinion'
- add a new paragraph under the 'Basis for qualified opinion' heading giving a description of the matter giving rise to the qualification. The paragraph under that heading in the models should be retained.

54. When auditors express a qualified opinion due to a material misstatement in the financial statements, they should state in the 'Qualified opinion on 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.

55. 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 'Qualified opinion on 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.

Other opinion options

56. In exceptional circumstances, auditors may have to express an adverse opinion on the financial statements or even disclaim an opinion.
57. Having obtained sufficient appropriate audit evidence, an auditor may conclude that misstatements are both material and pervasive to the financial statements. Where this is the case, it would be appropriate for the auditor to express an adverse opinion.
58. Auditors should state in the 'Adverse 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.
59. Auditors may have to disclaim an opinion if 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 'Disclaimer of opinion on 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.

Conclusions relating to going concern

60. ISA (UK) 700 requires auditors to report in accordance with ISA (UK) 570 in respect of going concern. ISA (UK) 570 requires auditors to conclude
 - on the appropriateness of the college's use of the going concern basis of accounting
 - whether a material uncertainty exists about the college's ability to continue to adopt the going concern basis of accounting.

Nothing to report

61. Where auditors conclude that the going concern basis of accounting is appropriate and no material uncertainty has been identified, auditors are required to report by exception in a separate section of the independent auditor's report. Where this is the case, the wording of the relevant paragraph in Appendices 1 and 2 should be used unchanged.

Matter to report

Where there may be a going concern matter to report, auditors should discuss the matter with Audit Strategy.

62. Where auditors conclude that there is a material uncertainty regarding the use of the going concern basis of accounting or that it is not considered appropriate, they should discuss the matter with Audit Strategy.
63. In summary, in the rare event of a going concern matter requiring to be reported, the reporting options would be as follows
- Where the going concern basis of accounting is inappropriate, auditors should express an adverse opinion.
 - Where the going concern basis of accounting is appropriate but a material uncertainty exists and has been adequately disclosed in the financial statements, auditors should add a separate section to the auditor's report under the heading 'Material uncertainty related to going concern' and draw attention to the disclosure.
 - Where adequate disclosure of the material uncertainty has not been made, auditors should express a qualified opinion.

Respective responsibilities

64. ISA (UK) 700 requires there to be sections in the independent auditor's report to describe
- the responsibilities of the board of management for the preparation of the financial statements
 - the auditor's responsibilities for the audit of the financial statements.
65. ISA (UK) 700 requires a significantly expanded description of the auditor's responsibilities. However, it allows much of the description to be included on the website of an appropriate authority which auditors can refer to. As a change in 2016/17, the models embed a link to the description on the FRC website.

Other information in the annual report and accounts

66. ISA (UK) 700 requires auditors to report in accordance with ISA (UK) 720 in respect of other information in the annual report and accounts. ISA (UK) 720 requires the independent auditor's report to include a section on the other information explaining that
- the college is responsible for the other information
 - auditors are responsible for reading the other information 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.

67. It also explains that auditors do not express any form of assurance conclusion on the other information, except on the specific matters prescribed by the Auditor General for Scotland under the audit appointment (i.e. the opinions on the remuneration and staff report, performance report and governance statement).

No material misstatement

68. Where auditors do not identify a misstatement in the other information, the wording of the relevant paragraph in Appendices 1 and 2 should be used unchanged.

Material misstatement

When auditors conclude that there is an uncorrected material misstatement of the other information, they should

- **discuss the matter with Audit Strategy**
- **include a statement in this section either describing the misstatement or referring to a basis for qualified opinion paragraph.**

69. Where auditors conclude that there is an uncorrected material misstatement of the other information, they should discuss the matter with Audit Strategy. The reporting requirement would involve including a statement in this section that
- describes the material misstatement; or
 - if the misstatement impacts on the opinions given on the performance report or governance statement, refers to a basis for qualified opinion paragraph in the section on other prescribed matters that describes the material misstatement (refer to paragraph 86 for more information).

Other matter paragraph

When auditors consider it necessary to draw attention to matters that are relevant to users' understanding of the audit, they should

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

70. An 'other matter' paragraph under *ISA (UK) 706 Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report* should be used 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).
71. An 'other matter' paragraph should only be used for matters not presented or disclosed in the financial statements.

72. 'Other matter' paragraphs are not the appropriate vehicle to deal with the other reporting responsibilities set out in sections 5 and 6 of this technical guidance note. However, ISA (UK) 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.

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 Audit Strategy**
- **include an 'emphasis of matter' paragraph in their report.**

73. ISA (UK) 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 fundamental to users' understanding of the financial statements (i.e. an 'emphasis of matter' paragraph).
74. 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
- 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.

4 Report on regularity of expenditure and income

Purpose of section

75. This section provides guidance on the part of the independent auditor's report that relates to expressing an opinion on the regularity of expenditure and income.

Auditor's responsibilities

76. Auditors of colleges are required by the *Public Finance and Accountability (Scotland) Act 2000* 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'.
77. 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.
78. The responsibility to express an opinion on regularity is discharged through the audit of the financial statements. Guidance on the audit of regularity is provided by Audit Strategy in module 5 of technical guidance note 2017/6(FE).

Unqualified opinion

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

Qualified opinion

When auditors qualify their opinion on regularity, they should

- discuss the proposed qualification with Audit Strategy
- provide a description of the matter giving rise to the qualification.

80. 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 Audit Strategy in advance of finalising the report.
81. 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'.

5 Opinion on other prescribed matters

Purpose of section

82. 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 audited part of the remuneration and staff report, the performance report, and the governance statement.

Auditors' responsibilities

83. In accordance with adopting *Companies Act 2006* requirements as a matter of good practice, auditors are required by the Auditor General to express opinions within their independent auditor's report on whether
- the audited part of remuneration and staff report has been properly prepared. See module 6 (section 3) of technical guidance note 2017/6(FE)
 - the performance report is consistent with the financial statements and as a new requirement for 2016/17, has been properly prepared in accordance with applicable legal requirements. See module 6 (section 2) of technical guidance note 2017/6(FE)
 - as a new requirement for 2016/17, the governance statement is consistent with the financial statements and has been properly prepared in accordance with applicable legal requirements. See module 6 (section 4) of technical guidance note 2017/6(FE).
84. 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 Audit Strategy as this would trigger additional reporting requirements under ISA (UK) 720.

Unqualified opinion

85. Where auditors do not qualify their opinion on any of the prescribed matters, the wording of the relevant paragraph in Appendices 1 and 2 should be used unchanged.

Qualified opinion

When auditors qualify their opinion on any prescribed matter, they should

- **discuss the proposed qualification with Audit Strategy**
- **amend the heading and wording of the opinion paragraph**
- **add a basis for qualified opinion paragraph**
- **provide a description of the matter giving rise to the qualification.**

86. Any proposed qualified opinion on a prescribed matter should be discussed with Audit Strategy in advance of finalising the auditor's report. Where auditors express a qualified opinion on any of the prescribed matters, they should
- amend the heading 'Opinion on other prescribed matters' to 'Qualified opinion on other prescribed matters'
 - add the phrase 'Except for the matter described in the Basis for qualified opinion on other prescribed matters section of [my/our] report'
 - add a section under the heading 'Basis for qualified opinion on other prescribed matters' and provide a concise description of the matter giving rise to the qualification
 - add the phrase 'Except for the matter described in the Basis for qualified opinion on other prescribed matters section of [my/our] report' to the paragraph on misstatements in the performance report and governance statement contained in the matters reported by exception section (refer to paragraph 98 for more information).

6 Matters reported on by exception

Purpose of section

87. This section provides guidance on the parts of the independent auditor's report that relate to matters reported on by exception.

Overview

Auditors should report if

- **adequate accounting records have not been kept**
- **the financial statements and the audited part of the remuneration and staff report are not in agreement with the accounting records**
- **they have not received all the information and explanations required for the audit**
- **they have identified any material misstatements in the performance report or governance statement**

88. Where auditors are required to report on certain matters by exception, ISA (UK) 700 treats them as matters reported on by exception. Auditors are required to describe their responsibilities for such matters, and incorporate a suitable conclusion (rather than opinion).
89. Under ISA (UK) 720, auditors are also required to report as a matter reported by exception whether they have identified any material misstatements in the performance report or governance statement.
90. *The Charities Accounts (Scotland) Regulations 2006* require auditors to report if
- adequate accounting records have not been kept
 - the financial statements and the audited part of the remuneration and staff report are not in agreement with the accounting records.
91. The accounting records should comprise an orderly, classified collection of information capable of timely retrieval, containing details of the college's transactions, assets and liabilities. The information should be organised so as to enable a trial balance to be constructed. Auditors should consider accounting records to be adequate if they are sufficient to
- show and explain the college's transactions
 - disclose with reasonable accuracy, at any time, the financial position of the college
 - enable the board of management to ensure that any accounts required to be prepared comply with statutory requirements.

92. There is a distinction between the accounting records and the accounting control system. If auditors find weaknesses relating to the accounting control system rather than the accounting records, they can still conclude that adequate accounting records have been kept. The weaknesses in the accounting control systems would need to be reported in the governance statement.

Information and explanations

93. *The Charities Accounts (Scotland) Regulations 2006* also require auditors to report if they have not received all the information and explanations required for the audit.

Suitable conclusion on matters reported by exception

No modified conclusion

94. Where auditors do not modify their conclusion, they should use the wording in Appendices 1 and 2 which is 'I/we have nothing to report in respect of these matters'.

Modified conclusion

Where auditors modify their conclusion, they should

- **discuss the proposed modification with Audit Strategy**
- **amend the conclusion wording**
- **provide a description of the matter giving rise to the modification.**

95. Any proposed modified conclusion should be discussed with Audit Strategy 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'.
96. Where the auditor expresses a modified conclusion in respect of a matter reported by exception this may also give rise to a modification of the auditor's opinion on the financial statements. For example, if adequate accounting records have not been maintained and as a result it proves impracticable for the auditor to obtain sufficient appropriate evidence concerning material matters in the financial statements, the auditor's report on the financial statements includes a qualified opinion arising from that limitation.

Material misstatements

97. ISA (UK) 720 requires auditors to state whether they have identified material misstatements in the performance report or governance statement. The illustrative examples provided by the FRC include this as a matter reported by exception.

No material misstatements

98. Where auditors do not identify material misstatements in the performance report or governance statement, they should use the wording in Appendices 1 and 2 unchanged.

Material misstatement

Where auditors identify a material misstatement in the performance report or governance statement, they should

- **discuss the matter with Audit Strategy**
- **add the phrase 'Except for the matter described in the Basis for qualified opinion on other prescribed matters section of [my/our] report'.**

99. Any material misstatement should be discussed with Audit Strategy in advance of finalising the auditor's report. Where there is a matter to report, it is likely there will have been a qualified opinion on the relevant prescribed matter. Auditors should therefore add the phrase 'Except for the matter described in the Basis for qualified opinion on other prescribed matters section of [my/our] report' to the relevant paragraph in Appendices 1 and 2.

7 Report on summary financial statements in separate annual report

Purpose of section

100. This section provides guidance on procedures to be carried out if a college chooses to include a summary of the audited financial statements (summary financial statements) in a separate annual report.

Auditors' responsibilities

101. Auditors should examine the summary financial statements included in a separate annual report and express an opinion on the consistency with the audited financial statements in accordance with the procedures set out in this section.

102. The audit and reporting procedures set out in the following paragraphs are based on the International Auditing and Assurance Standards Board's *ISA 810 Engagements to report on summary financial statements*.

Audit procedures

103. As the basis for their opinion on the summary financial statements, auditors should check that there are no inconsistencies with the audited financial statements by evaluating whether

- the college's processes and controls for the preparation of the summary financial statements are adequate
- the information in the summary financial statements agrees with, or can be recalculated from, the related information in the audited financial statements
- the summary financial statements have been prepared in accordance with the criteria set by the college
- the summary financial statements contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading

Reporting

104. Auditors should express an opinion, based on the procedures carried out, as to whether the summary financial statements are consistent, in all material respects, with the audited financial statements.

Unmodified opinion on summary financial statements

105. Where auditors do not modify their opinion on consistency with the audited financial statements, the model wording at Appendix 4 should be used unchanged.

Modified opinion on summary financial statements

106. Where the summary financial statements are not consistent, in all material respects, with the audited financial statements, and the college does not agree to make the necessary changes, auditors should express an adverse opinion on the summary financial statements.
107. When auditors express an adverse opinion, they should
- amend the heading 'Opinion' to 'Adverse opinion'
 - in the second paragraph under the 'Adverse opinion' heading, add the phrase 'because of the significance of matter described in the Basis for adverse opinion paragraph' and change 'are consistent' to 'are not consistent'
 - add a 'Basis for adverse opinion' paragraph and describe the matter giving rise to the adverse opinion'

Modified opinion on audited financial statements

108. Auditors should make reference in their report on the summary financial statements to the modification of any opinion on the audited financial statements, or any 'emphasis of matter' or 'other matter' paragraph..

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

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 120 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.

Report on the audit of the financial statements

Opinion on financial statements

[I/We] have audited the financial statements in the annual report and accounts of [insert name of college] for the year ended 31 July 2017 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 the [specify precisely the titles of the primary statements used by the college such as the Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, and Statement of Cash Flow] and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In [my/our] opinion the accompanying 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 2017 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).

Basis of opinion

[I/We] conducted [my/our] audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). [My/Our] responsibilities under those standards are further

described in the Auditor's Responsibilities for the Audit of the Financial Statements section of [my/our] report. [I am/We are] independent of the college in accordance with the ethical requirements that are relevant to [my/our] audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and [I/we] have fulfilled [my/our] other ethical responsibilities in accordance with these requirements. [I/We] believe that the audit evidence [I/we] have obtained is sufficient and appropriate to provide a basis for [my/our] opinion.

Conclusions relating to going concern

[I/We] have nothing to report in respect of the following matters in relation to which the ISAs (UK) require [me/us] to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the college has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Board of Management for the financial statements

As explained more fully in the Statement of the Board of Management's Responsibilities, the Board of Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Board of Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Management is responsible for assessing the college's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

[My/Our] objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes [my/our] opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of [my/our] auditor's report.

Other information in the annual report and accounts

The Board of Management is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements and [my/our] auditor's report thereon. [My/Our] opinion on the financial statements does not cover the other information and [I/we] do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with [my/our] audit of the financial statements in accordance with ISAs (UK), [my/our] responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or [my/our] knowledge obtained in the audit or otherwise appears to be materially misstated. If [I/we] identify such material inconsistencies or apparent material misstatements, [I am/we are] required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work [I/we] have performed, [I/we] conclude that there is a material misstatement of this other information, [I am/we are] required to report that fact. [I/We] have nothing to report in this regard.

Report on regularity of expenditure and income

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.

Responsibilities for regularity

The Board of Management is responsible for ensuring the regularity of expenditure and income. [I am/We are] responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on other prescribed matters

[I am/We are] required by the Auditor General for Scotland to express an opinion on the following matters.

In [my/our] opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

In [my/our] opinion, based on the work undertaken in the course of the audit

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that

report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; and

- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

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

In the light of the knowledge and understanding of the college and its environment obtained in the course of the audit, [I/we] have not identified material misstatements in the Performance Report or Governance Statement.

[I am/We are] required by The Charities Accounts (Scotland) Regulations 2006 to report to you if, in [my/our] opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report 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.

[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

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 120 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.

Report on the audit of the financial statements

Opinion on financial statements

[I/We] have audited the financial statements in the annual report and accounts of [insert name of college] and its group for the year ended 31 July 2017 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 the [specify precisely the titles of the primary statements used by the college 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 notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In [my/our] opinion the accompanying 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 2017 and of the 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).

Basis of opinion

[I/We] conducted [my/our] audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). [My/Our] responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of [my/our] report. [I am/We are] independent of the college and its group in accordance with the ethical requirements that are relevant to [my/our] audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and [I/we] have fulfilled [my/our] other ethical responsibilities in accordance with these requirements. [I/We] believe that the audit evidence [I/we] have obtained is sufficient and appropriate to provide a basis for [my/our] opinion.

Conclusions relating to going concern

[I/We] have nothing to report in respect of the following matters in relation to which the ISAs (UK) require [me/us] to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the college has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Board of Management for the financial statements

As explained more fully in the Statement of the Board of Management's Responsibilities, the Board of Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Board of Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Management is responsible for assessing the college's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

[My/Our] objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes [my/our] opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of [my/our] auditor's report.

Other information in the annual report and accounts

The Board of Management is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements and [my/our] auditor's report thereon. [My/Our] opinion on the financial statements does not cover the other information and [I/we] do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with [my/our] audit of the financial statements in accordance with ISAs (UK), [my/our] responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or [my/our] knowledge obtained in the audit or otherwise appears to be materially misstated. If [I/we] identify such material inconsistencies or apparent material misstatements, [I am/we are] required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work [I/we] have performed, [I/we] conclude that there is a material misstatement of this other information, [I am/we are] required to report that fact. [I/We] have nothing to report in this regard.

Report on regularity of expenditure and income

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.

Responsibilities for regularity

The Board of Management is responsible for ensuring the regularity of expenditure and income. [I am/We are] responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on other prescribed matters

[I am/We are] required by the Auditor General for Scotland to express an opinion on the following matters.

In [my/our] opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

In [my/our] opinion, based on the work undertaken in the course of the audit

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

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

In the light of the knowledge and understanding of the college and its environment obtained in the course of the audit, [I/we] have not identified material misstatements in the Performance Report or Governance Statement.

[I am/We are] required by The Charities Accounts (Scotland) Regulations 2006 to report to you if, in [my/our] opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report 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.

[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 non-group)?			
2 Have you presented the reports in the correct person (i.e. singular for Audit Scotland staff, plural for firms)?			
3 Have you specified precisely the titles of the primary statements used by the college?			
4 Have you amended the names of the other reports to reflect the actual titles used by the college?			
5 Have you discussed any proposed modifications to audit opinions or conclusions, or ISA 706 paragraphs, with Audit Strategy?			
6 Have you discussed any other proposed amendments to the model wording with Audit Strategy?			
7 Have you <ul style="list-style-type: none"> • signed and dated the report on or after the authorised for issue date? • signed the report on behalf of the firm (firms only)? • given the full date and postal address? • satisfied yourself that the independent auditors report is appropriately located within the annual report and accounts? 			

Appendix 4

Model auditor's report – summary financial statements

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

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 120 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.

Opinion

The summary financial statements, which comprise the [specify names of summary financial statements] and related notes, are derived from the audited financial statements of [insert name of college] for the year ended 31 July 2017.

In [my/our] opinion the accompanying summary financial statements are consistent, in all material respects, with the audited financial statements.

Summary financial statements

The summary financial statements do not contain all the disclosures required by applicable law and United Kingdom Generally Accepted Accounting Practice. Reading the summary financial statements is not a substitute for reading the audited financial statements, and the auditor's report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of [my/our] report on the audited financial statements.

The audited financial statements and [my/our] report thereon

[I/We] expressed an unmodified audit opinion on the audited financial statements in [my/our] report dated [insert date of independent auditor's report].

The Board of Management's responsibility for the summary financial statements

The Board of Management is responsible for the preparation of the summary financial statements.

Auditor's responsibility for the summary financial statements

[My/Our] responsibility is to express an opinion on whether the summary financial statements are consistent in all material respects with the audited financial statements based on [my/our] procedures which were conducted in accordance with the approach set out in Audit Scotland's technical guidance note 2017/7(FE).

[Signature]

[Name of auditor]

[Full postal address]

[Full date]