

Dundee and Angus College

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Dundee and Angus College

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Dundee and Angus College (the college). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and financial statements and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and financial statements including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- review of the college's participation in the National Fraud Initiative.

Impact of Covid-19

2. The coronavirus (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to the college through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help the college promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

Respective responsibilities of the auditor and Board of Management

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the Board of Management. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

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

Board of Management responsibilities

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

9. The audit of the financial statements does not relieve management or the Board of Management, as those charged with governance, of their responsibilities.

Communication of fraud or suspected fraud

10. In line with ISA 240, in presenting this plan to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members of the Committee or Board of Management have any such knowledge or concerns relating to the risk of fraud within the college, we invite them to communicate this to us for our consideration.

Managing the transition to 2022/23 audits

11. Audit appointments are usually for five years but were extended to six years due to Covid-19. This, 2021/22, is the final year of the current appointment. We will work closely with our successors to ensure a well-managed transition.

Annual report and financial statements audit planning

Materiality

12. Materiality is an expression of the relative significance of a matter in the context of the annual report and financial statements. We are required to plan our audit to determine with reasonable confidence whether the annual report and financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

13. The materiality levels for the college are set out in [exhibit 1](#).

Exhibit 1

2021/22 materiality levels for the college

Materiality levels	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure based on the latest audited annual report and financial statements for 2020/21.	£0.730 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the annual report and financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£0.545 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.035 million

Source: Audit Scotland

Significant risk of material misstatement to the annual report and financial statements

14. Our risk assessment draws on our cumulative knowledge of the college, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings

with internal audit, attendance at committees and a review of supporting information.

15. Based on our risk assessment process, we identified the following significant risk of material misstatement to the annual report and financial statements. This risk has the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 significant risk of material misstatement to the annual report and financial statements

Significant risk of material misstatement	Sources of management assurance	Planned audit response
<p>1. Risk of management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of their ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance 	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Evaluate significant transactions outside the normal course of business. We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.

Source: Audit Scotland

Other areas of audit focus

16. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the annual report and financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate

this to management and those charged with governance and revise our planned audit approach accordingly.

17. The other areas of specific audit focus are:

- **Valuation of pension liability:** This an area of audit focus due to the material value and significant assumptions used in the calculation of the liability.
- **Valuation of land and buildings:** The college is required to consider annually that the valuation of its estate remains appropriate outside of formal revaluation cycles. Management engaged external valuers to conduct a full valuation of the land and buildings estate as at 31 July 2020. The impact of Covid-19 on the use of assets together with the college's ongoing infrastructure review means that we will place significant scrutiny on management's assessment of impairment in 2021/22.

Consideration of the risks of fraud in the recognition of income and expenditure

18. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of income. We have rebutted this risk for the college as the main source of income is funding from other public sector bodies, principally the Scottish Funding Council. In addition, the college's other income streams mainly comprise of high volume, low value items that are unlikely to result in a material misstatement due to fraud.

19. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to income recognition. We have rebutted this risk for the college as the expenditure streams are not considered to be an area susceptible to material misstatement from fraud based on our knowledge of the college and our risk assessment to date.

20. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures. Our audit testing will maintain an oversight of any unusual transactions or accounting entries.

Group consideration

21. As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

22. The college has a group which comprises the college and one component entity, a subsidiary. The audit of the financial information of the subsidiary is performed by other auditors. Based on our discussion with management and assessment of the group, the only significant group component is the college, which accounts for over 99% of the consolidated total comprehensive income

and over 99% of the group's net assets. At this stage, it has been assessed that, other than the college, there are no other significant group components. All non-significant components will be covered by an analytical review at the group level.

Audit of the Performance Report, Governance Statement and Remuneration and Staff Report

23. In addition to the appointed auditor's opinion of the financial statements, the Audit General for Scotland prescribes that the appointed auditor should provide opinions as to whether the Performance Report, Governance Statement, and the audited part of the Remuneration and Staff Report, have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the financial statements.

24. To inform these opinions we will consider whether the disclosures within each statement comply with the requirements of the applicable guidance, and confirm that relevant information reflects the contents of the financial statements and other supporting documentation, including:

- **Performance Report:** Consideration of performance information reported to the college's Board and Management and committees and published during the year.
- **Governance Statement:** Reviewing the annual certificate of assurance from the college Principal to the Accountable Officer of the sector (being the Scottish Funding Council's Chief Executive), and Internal Audit's Annual Report.
- **Remuneration and Staff Report:** Obtaining and reviewing payroll data and HR reports.

25. Based on our knowledge of the audit, and the established procedures in place to produce these statements, we have not identified any specific risks to be communicated to those charged with governance in relation to the audit of the Performance Report, Governance Statement, and audited part of the Remuneration and Staff Report.

Audit risk assessment process

26. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

27. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

28. The four dimensions that frame our audit work are shown in [exhibit 3](#).

Exhibit 3

Audit dimensions



Source: Code of Audit Practice

29. In summary, the four dimensions cover the following:

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

- **Financial sustainability:** as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).
- **Governance and transparency:** governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership, and decision-making and transparent reporting of financial and performance information.
- **Value for money:** value for money refers to using resources effectively and continually improving services.

Audit dimension risks

30. We have identified audit risks in the areas set out in [exhibit 4](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks. The conclusions from this work will be reported in our 2021/22 Annual Audit Report.

Exhibit 4

2021/22 audit dimension risks

Description of risk	Sources of management assurance	Planned audit response
<p>1. Financial sustainability</p> <p>As is the position across Scotland, the college continues to operate in an increasingly complex and challenging environment.</p> <p>A wide range of financial uncertainties have been further complicated by the ongoing impacts of the pandemic, such as the growing inflationary pressures.</p> <p>The college is developing its Financial Strategy that will cover the period 2022 – 2027, with a draft of this having been considered by the Board of Management in March 2022.</p> <p>The college’s ability to implement mitigations in the Strategy will be impacted by Scottish Funding Council (SFC) decisions relating to funding announcements, the reduction in non-recurring Covid-19 funding and the outcome of any National Pay Bargaining agreements.</p> <p>Given the level of sector wide uncertainties around future funding and the general economic environment that has arisen following Covid-19, further refinement of the draft Financial Strategy is needed.</p>	<ul style="list-style-type: none"> • Further development of the planning assumptions, actions and timelines and budget forecasts included in the Financial Strategy 2022-2027. • Engagement with SFC and other stakeholders. 	<ul style="list-style-type: none"> • Monitor achievements of financial targets. • Assessment of the college’s Financial Strategy. • Review of the college’s Financial Forecast Return for 2022/23-2024/25.

Risk: The college faces significant challenges to remain financially resilient and deliver its objectives sustainably.

2. Estates needs assessment and investment

Following the return to on-campus learning after the Covid-19 pandemic, any changes in the college's working and learning environment will need to be reflected in its future estate requirement and investment.

Whilst student satisfaction results have remained high, the pandemic significantly impacted on the student learning experience, and any change in student needs and expectations will require factoring into investment plans.

Maintaining student recruitment, retention and attainment will be important if the college is to meet its 2021/22 credits target.

Risk: The nature and condition of the estate impacts on the ability of the college to achieve some of the metrics in its 2025 Strategy – More Successful Students, including funding implications arising from any reduction in student numbers.

- The “New ways of working” project will establish what future work and study arrangements will look like post pandemic. This will include a full review of the curriculum offering.
- Development of a new Infrastructure Strategy.
- Review the progress of the metrics aligned to the college's 2025 Strategy - More Successful Students.
- Review of the college's Infrastructure Strategy.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

31. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [exhibit 5](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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

33. We will provide an Independent Auditor's Report to the college, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and financial statements. We will provide the college and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

34. [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the Independent Auditor's Report by the statutory deadline of 31 December 2022.

Exhibit 5

2021/22 audit outputs

Audit Output	Audit Scotland target date	Consideration by those charged with governance
Annual Audit Plan	30 June 2022	7 June 2022
Independent Auditor's Report	31 December 2022	13 December 2022
Annual Audit Report	31 December 2022	13 December 2022

Source: Audit Scotland

Timetable

35. To support an efficient audit, it is critical that the timetable for producing the annual report and financial statements for audit is achieved. We have included a proposed timetable for the audit at [exhibit 6](#) that has been discussed with management.

36. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and over the course of the audit.

Exhibit 6

Proposed annual report and financial statements timetable

Key stage	Provisional date
Submission date for the receipt of the unaudited annual report and financial statements with complete working papers package.	10 October 2022
Latest date for final clearance meeting with management.	18 November 2022
Issue of Letter of Representation and proposed Independent Auditor's Report.	25 November 2022
Issue of Annual Audit Report to those charged with governance.	
Signed Independent Auditor's Report.	13 December 2022

Source: Audit Scotland

Audit fee

37. The agreed audit fee for the 2021/22 audit of the college is £25,490 (2020/21: £24,990). In determining the audit fee, we have taken account of the risk exposure of the college and the planned management assurances in place.

38. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and financial statements or the absence of adequate supporting working papers, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Other matters

Internal audit

39. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures.
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort.
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

40. The college's internal audit function is provided by Henderson Loggie. Our assessment of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

41. From our initial review of the internal audit plan, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We may consider aspects of internal audit's work in respect of our wider audit dimension responsibilities.

Independence and objectivity

42. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual 'fit and proper' declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

43. The engagement lead (i.e., appointed auditor) for the college is Andrew Kerr, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and

objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the college.

Quality control

44. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the Independent Auditor's Report or opinion is appropriate in the circumstances.

45. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

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

Dundee and Angus College

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www.audit-scotland.gov.uk/accessibility

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