

West Lothian College

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for West Lothian College

June 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of West Lothian 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 Board of Governors Report and the Remuneration and Staff Report
- reviewing the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services
- consideration of Best Value arrangements.

Audit Appointment

2. We are pleased to be appointed as the external auditor of West Lothian College for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to West Lothian College through our external audit work by being constructive and forward looking, by attending meetings of the Audit Committee and by recommending and encouraging good practice. In so doing, we will help West Lothian College promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and West Lothian College

6. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and West Lothian College. Key responsibilities are summarised below.

Auditor responsibilities

7. 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.

8. 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 wider scope arrangements in place at West Lothian College. In doing this, we aim to support improvement and accountability.

West Lothian College's responsibilities

9. West Lothian College is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. West Lothian College has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Financial statements audit planning

Introduction

11. The annual report and financial statements are an essential part of demonstrating West Lothian College's stewardship of resources and its performance in the use of those resources.

12. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the 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 2022/23 audit

14. We assess materiality at different levels as described in [Exhibit 1](#), including materiality values.

Exhibit 1

2022/23 Materiality levels for West Lothian College

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of West Lothian College's operations. For the year ended 31 July 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22.	£471,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£353,000

Materiality	Amount
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. We have set this at 5% of planning materiality.	£24,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of West Lothian College, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

16. 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.

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have 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

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by 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 management's ability to override controls that</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<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.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>otherwise appear to be operating effectively.</p>		<ul style="list-style-type: none"> • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • 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. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.
<p>2. Valuation of land and buildings.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p> <p>Land and buildings are formally valued by external valuers every five years with an interim valuation at year three. There is no valuation exercise planned for 2022/23. Values may change year on year, and it is important that West Lothian College ensures the financial statements accurately reflect the value of the land and buildings.</p>	<ul style="list-style-type: none"> • Discussions to be held with external valuers. • Valuations carried out every five years with interim valuation at year three by an external valuer. 	<ul style="list-style-type: none"> • Assess the approach the College has adopted for the valuation of land and buildings.

18. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk as the majority of funding is received from the Scottish Funding Council. This funding is clearly communicated and can be readily agreed to third party confirmations. As such this can be verified. West Lothian College's other income streams comprise of individually low valued transactions, and we have concluded this limits opportunities to manipulate the recognition of income in the financial statements.

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 revenue recognition. We have rebutted this risk as the main expenditure streams of West Lothian College can be readily forecast based on a predictable pattern of spend and comprise a high volume of low value items, for example, staff costs. This limits the opportunities to manipulate the way expenditure is recognised.

20. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

21. 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 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.

22. The areas of specific audit focus are:

- **Valuation of Pension:** The college is an admitted body of Lothian Pension Fund and recognised a net pension asset of £2.3 million as at 31 July 2022. The asset requires the use of an actuarial methodology based on a range of assumptions including financial and demographic assumptions. These assumptions should reflect the profile of the college's employees and be based on appropriate data. This is an area of audit focus because the methodology applied could have a material impact on the net pension asset (or liability) accounted for in the financial statements. The basis of the assumptions should also be derived on a consistent basis year to year.

We will assess the scope, independence and competence of the professionals engaged in providing estimates for pensions and review appropriateness of actuarial assumptions and results including comparison with other bodies. We will establish officer's arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to Lothian Pension Fund and the Actuary.

Wider Scope and Best Value

Introduction

23. The [Code of Audit Practice](#) (including [supplementary guidance](#)) sets out the four areas 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 wider scope areas in audited bodies.

24. The Code provides for the Auditor General and the Accounts Commission to specify an alternative audit approach where an audited body might be considered less complex due to its size and its limited financial activity. The guidance sets out the criteria for auditors to use to determine if a body is less complex and the audit approach to be adopted in such circumstances. Having considered the guidance, we are content that the West Lothian College meets the definition of a 'less complex' body.

Other work

25. In addition to the work above we consider challenges which are impacting the public sector. In 2022/23 we will consider tackling climate change and responding to cyber security threats.

Climate Change

26. Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

27. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on West Lothian College's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

28. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider West Lothian College's arrangements for managing and mitigating cyber security risks.

Duty of Best Value

29. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within West Lothian College.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

30. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 3](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

31. 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.

32. We will provide an independent auditor's report to West Lothian College, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and financial statements. We will provide West Lothian 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.

33. [Exhibit 3](#) 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 2023.

Exhibit 3 2022/23 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	25 May 2023	8 June 2023
Independent Auditor's Report	23 November 2023	30 November 2023
Annual Audit Report	23 November 2023	30 November 2023

Source: Audit Scotland



Timetable

34. 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 4](#) that has been discussed with management.

35. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

36. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 4 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and financial statements with complete working papers package.	By 6 October 2023
Latest date for final clearance meeting with the Director of Finance (or equivalent)	17 November 2023
Agreement of audited and unsigned annual report and financial statements	20 November 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	23 November 2023
Issue of Annual Audit Report to those charged with governance.	23 November 2023
Signed Independent Auditor's Report	5 December 2023

Source: Audit Scotland

Audit fee

37. In determining the audit fee, we have taken account of the risk exposure of West Lothian College and the planned management assurances in place. The proposed audit fee for 2022/23 is £24,710.

38. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

39. In setting the fee for 2022/23 we have assumed that West Lothian College has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

40. It is the responsibility of West Lothian College to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

41. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit 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.

43. 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

44. The appointed auditor for West Lothian College is Brian Battison, 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 West Lothian College.

Audit Quality

45. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

46. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

47. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

48. Audit Scotland is committed to delivering high quality audits. 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 [supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

49. 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.

Appendix 1. Your audit team

50. The audit team involved in the audit of West Lothian College have significant experience in public sector audit.

Brian Battison
Senior Audit Manager
bbattison@audit-scotland.gov.uk

Brian has considerable public sector auditing experience and has delivered external audit services to a range of bodies including local authorities, health boards, colleges, and central government bodies.

Jennifer Law
Senior Auditor
jlaw@audit-scotland.gov.uk

Jennifer has considerable experience in planning and delivering audits across the public sector. Jennifer will work alongside the Senior Audit Manager to deliver the audit.

51. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

West Lothian College

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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