

Audit and Assurance Committee Meeting

Date of Meeting	Tuesday 30 May 2023
Paper Title	External Audit Plan 2022-23
Agenda Item	8
Paper Number	AAC4-C
Responsible Officer	Jim Godfrey, Finance & Resources Director
Status	Disclosable
Action	For Noting and Comment

1. Executive Summary

- 1.1. The External Audit Plan 2022-23 has been prepared by Audit Scotland and the report is provided to the Audit and Assurance Committee for consideration.

2. Recommendations

- 2.1. The Committee is invited to:

- **Note** the external audit plan for 2022-23 and **comment** as appropriate.
- **Note** the proposed external audit fee of £35,560, which represents an increase of 31% compared to the previous year.

3. Report

- 3.1.** An audit planning meeting took place on the 25 April 2023 involving colleagues from Audit Scotland and GCRB executive. The purpose of the meeting was to discuss developments during the previous year, the audit wider scope and key risks. Arrangements for the administration of the audit were also considered.
- 3.2.** Following the meeting, Audit Scotland provided a copy of the draft external audit plan for 2022-23. The GCRB Finance & Resources Director commented on the draft plan and the revised draft is attached.

4. Risk and Compliance Analysis

- 4.1.** The work of the External Auditor is informed by an assessment of risk. The approach to audit planning reflects an overall assessment of the relevant risks that apply to GCRB. This ensures that the audit focuses on the areas of highest risk.
- 4.2.** There are no legal implications as a result of this report.

5. Financial and Resource Analysis

- 5.1.** The cost of external audit for 2022-23 is expected to be £35,560 inclusive of VAT and the contribution to the work of Audit Scotland. This represents an increase of 31% compared to the previous year.

6. Equalities Implications

- 6.1.** There are no equalities implications as a direct result of this report.

7. Learner Implications

- 7.1.** Through the conditions of grant associated with the Regional Outcome Agreement, GCRB is required to conduct its affairs in accordance with the expected standards of good governance, which includes independent scrutiny and audit.

Glasgow Colleges Regional Board

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Glasgow Colleges Regional Board

May 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 Glasgow Colleges Regional Board (GCRB). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and consolidated 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 consolidated financial statements including the Performance Analysis, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

Audit Appointment

2. We are pleased to be appointed as the external auditor of GCRB 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 GCRB through our external audit work by being constructive and forward looking, by attending meetings of the Audit & Assurance Committee and by recommending and encouraging good practice. In so doing, we

will help GCRB promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and GCRB

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and GCRB. 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 consolidated financial statements. We also review and report on the wider scope arrangements in place at GCRB. In doing this, we aim to support improvement and accountability.

GCRB responsibilities

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

10. GCRB 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.

Communication of fraud or suspected fraud

11. In line with ISA 240, in presenting this plan to the Audit & Assurance 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 have any such knowledge or concerns relating to the risk of fraud within GCRB, we invite them to communicate this to us for our consideration.

Financial statements audit planning

Introduction

12. The annual accounts and consolidated financial statements are an essential part of demonstrating GCRB's stewardship of resources and its performance in the use of those resources.

13. 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

14. 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

15. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for GCRB and its group are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for GCRB and its group

Materiality	GCRB	Group
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 GCRB'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.	£0.024 million	£3.8 million
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	£0.018 million	£2.85 million

considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.

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.	£1,000	£190,000
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

16. Our risk assessment draws on our cumulative knowledge of GCRB, 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.

17. 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.

18. 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 annual report and consolidated financial statements

Significant risk of material misstatement	Sources of 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 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 throughout the year and post-closing entries and focus on significant risk areas. • Evaluate any significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Review of accounting estimates for management bias. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accounting accruals and prepayments.
<p>2. Estimation in the valuations of land and buildings (Group)</p> <p>There is a significant degree of subjectivity in the valuations of land and buildings held by the group's components. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations. This presents a significant risk of material misstatement for the consolidated financial statements.</p>	<ul style="list-style-type: none"> • GCRB works with the assigned colleges to review the basis of the asset valuations and assumptions made. 	<p>We will obtain assurances from component auditors over:</p> <ul style="list-style-type: none"> • Review of the information provided to the external valuer to assess for completeness. • Review of detailed working papers to support asset reviews and impairments. • Evaluation of the competence, capabilities, and objectivity of the professional valuer. • Understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Critical assessment of the approach adopted to assess the risk that assets not subject to valuation are materially misstated and consideration the robustness of that approach. • Critical assessment of the adequacy of the disclosures regarding the assumptions in relation to the valuation of land and buildings.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>3. Estimation in the valuations of pension asset/liability (Group)</p> <p>The actuarial valuations depend on a range of financial and demographic estimations about the future. The subjectivity around these estimates gives rise to a significant risk of material misstatement within the group's components, and the consolidated financial statements.</p>	<ul style="list-style-type: none"> GCRB works with the assigned colleges to review the pension assumptions. A meeting to discuss the pension assumptions and valuations will take place in July 2023. This will include representatives from the actuary, colleges and GCRB. 	<p>We will obtain assurances from component auditors over:</p> <ul style="list-style-type: none"> The accuracy and completeness of information provided to the actuary. Evaluation of the professional competence of the actuary. The appropriateness of assumptions used by the actuary. The reasonableness of actuarial estimates on material elements of the valuation.

Source: Audit Scotland

19. 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. We have rebutted this risk for GCRB as 100% of its income is funding from the Scottish Funding Council (SFC). The risk has also been rebutted in the group's components.

20. 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 for GCRB as the two main expenditure streams are: staff costs, which can be readily forecast based on a predictable pattern of spend and; regional strategic projects, which is linked to corresponding SFC funding, and can be readily agreed to third party evidence. Further work is required to confirm whether there is a risk of material misstatement in this area for the group's components.

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

Other areas of audit focus

22. As part of our assessment of audit risks, we identify 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.

23. The areas of specific audit focus are:

- **Estimation in the valuations of pension asset/liability** – We have assessed that this represents a risk of material misstatement in the single entity financial statements, due to the financial and demographic estimations involved in producing the valuation. However, due to the low number of staff employed by the single entity, and the resulting lower expected value of the asset/liability, this does not represent a significant risk of material misstatement.

Group Consideration

24. As group auditors, we are required under International Standard on Auditing (ISA) (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.

25. GCRB has a group which comprises the single entity and three components, City of Glasgow College, Glasgow Clyde College and Glasgow Kelvin College. Through our audit planning procedures, we have assessed that all 3 components are significant to the group. Our planned audit approach for the components is informed by our assessment of risk within the components and our consideration of the size and nature of their assets, liabilities and transaction streams.

26. The audits of the financial information of the components are performed by other audit teams within Audit Scotland. We plan to place reliance on the work of the component auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

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

27. In addition to the appointed auditor's opinion of the financial statements, the Auditor 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.

28. 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 Board of Management and Committees and published during the year.
- **Governance Statement:** Reviewing the annual certificate of assurance from the Board 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.

29. 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.

Wider Scope and Best Value

Introduction

30. The [Code of Audit Practice](#) 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.

Wider scope audit focus

31. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In summary, the wider scope areas cover the following:

- **Financial management** - concerned with financial capacity, sound budgetary processes and the operation of the control environment. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **Financial sustainability** - as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. The college sector in Scotland faces significant financial uncertainty. We will also comment on the region's financial sustainability in the medium term (two to five years) and longer term (longer than five years), monitor achievement of financial targets and assess the financial strategy.
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by GCRB. We will also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how GCRB demonstrates economy, efficiency and effectiveness through the use of financial and other resources.
- **Climate Change** - 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. We will gather information on GCRB's arrangements for responding to climate change including the development of strategies and the monitoring and reporting of progress against targets for reducing emissions.

- **Cyber Security** – there continues to be a significant risk of cyber-attacks to public bodies and 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 the GCRB's arrangements for managing and mitigating cyber security risks.

Duty of Best Value

32. [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. Further, the Scottish Funding Council's financial memorandum requires colleges to have a strategy for systematically reviewing management's arrangements for securing value for money. We will be carrying out a high-level review to confirm that such arrangements are in place within GCRB.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

33. 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.

34. 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.

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

36. [Exhibit 3](#) outlines the target dates for our audit outputs. As in previous years, GCRB have indicated that they will seek an extension to the 31 December 2023 deadline stated in the SFC Accounts Direction for submitting their annual report and consolidated financial statements to the Auditor General for Scotland. Therefore, we aim to issue the independent auditor's report by 31 January 2024.

Exhibit 3 2022/23 Audit outputs

Audit Output	Target date	Audit and Assurance Committee Date
Annual Audit Plan	30 June 2023	30 May 2023
Independent Auditor's Report	31 January 2024	TBC January 2024
Annual Audit Report	31 January 2024	TBC January 2024



Source: Audit Scotland

Timetable

- 37.** To support an efficient audit, it is critical that the timetable for producing the annual report and consolidated financial statements for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed with management.
- 38.** 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.
- 39.** 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 consolidated financial statements timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and consolidated financial statements with complete working papers package.	4 December 2023
Latest date for final clearance meeting with management	18 December 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	8 January 2024
Issue of Annual Audit Report to those charged with governance	
Signed Independent Auditor's Report	29 January 2024

Source: Audit Scotland

Audit fee

- 40.** In determining the audit fee, we have taken account of the risk exposure of GCRB and its group and the planned management assurances in place. The proposed audit fee for 2022/23 is £35,560.
- 41.** 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.

42. In setting the fee for 2022/23 we have assumed that GCRB 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

43. It is the responsibility of GCRB to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

44. 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

45. 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.

46. 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.

47. The engagement lead (i.e. appointed auditor) for GCRB is Mark Laird, 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 GCRB.

Audit Quality

48. 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.

49. 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.

50. 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.

51. 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.

52. 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

53. The audit team involved in the audit of GCRB have significant experience in public sector audit.

Mark Laird

Senior Audit Manager

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Mark has over 13 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Euan Robertson

Senior Auditor

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Euan has considerable experience in planning and delivering audits. Euan will manage the team and work alongside Mark to deliver the audit.

54. 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.

Glasgow Colleges Regional Board

Annual Audit Plan 2022/23

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

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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