

Audit and Assurance Committee Meeting

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| Date of Meeting | Tuesday 28 May 2024 |
| Paper Title | External Audit Plan 2023-24 |
| Agenda Item | 7 |
| 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 2023-24 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 2023-24 and **comment** as appropriate.
- **Note** the proposed external audit fee of £37,700 which represents an increase of 6% compared to the previous year.

3. Report

- 3.1.** An audit planning meeting took place on the 15 April 2024 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 2023-24. 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.** The delivery of the external audit plan helps to mitigate the following risks:
 - A breach of legislation or regulatory requirements results in a failure of governance (Risk 008).
 - Inadequate controls and preventative measures result in a breach (e.g. cyber attack, fraudulent activity) (Risk 009).
- 4.3.** There are no legal implications because of this report.

5. Financial and Resource Analysis

- 5.1.** The cost of external audit for 2023-24 is expected to be £37,700 inclusive of VAT and the contribution to the work of Audit Scotland. This represents an increase of 6% 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 2023/24



Prepared for Glasgow Colleges Regional Board

May 2024

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Introduction

Summary of planned audit work

1. I, Mark Laird, have been appointed by the Auditor General for Scotland as external auditor of Glasgow Colleges Regional Board (GCRB) for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of my five-year audit appointment. However, responsibility for the audit was assigned to Lisa Duthie for 2022/23 only, due to a change in my availability.

2. This document summarises the work plan for my 2023/24 audit. The main elements of the audit include:

- an audit of the annual report and consolidated financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- 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
- concluding on the financial sustainability and governance arrangements of GCRB and a review of the Governance Statement
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual report and consolidated financial statements and an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit.

Respective responsibilities of the auditor and GCRB

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

Auditor responsibilities

4. My responsibilities as appointed auditor 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.

5. 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 wider scope arrangements in place at GCRB. In doing this, we aim to support improvement and accountability.

GCRB responsibilities

6. GCRB is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports within the annual report and consolidated financial statements in accordance with applicable requirements.

7. 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.

Adding Value

8. My team and I aim to add value by: tailoring audit work to the circumstances of GCRB and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Audit and 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.

Communication of fraud or suspected fraud

9. In line with ISA 240, in presenting this plan to the Audit and 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.

Annual report and accounts

Introduction

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

11. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual report and consolidated financial statements, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

12. My team and I focus our work on the areas of highest risk. As part of our planning process, we perform 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. I am required to plan my audit to obtain reasonable assurance about whether 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 2023/24 audit

14. 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

2023/24 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 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23. | £15,000 | £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 are required. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality. | £11,000 | £2.85 million |
| 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 |

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. 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.

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 risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2023/24 Significant risks of material misstatement to the annual report and consolidated financial statements

| Significant risk of material misstatement | Management's 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 ISA (UK) 240, management is in a unique</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 |

| Significant risk of material misstatement | Management's sources of assurance | Planned audit response |
|---|---|--|
| <p>position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> | | <p>to the processing of journal entries and other adjustments.</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. • Focussed testing of accounting accruals and prepayments. |
| <p>2. Estimation in the valuation of land and buildings (Group)</p> <p>There is a significant degree of subjectivity in the valuation 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 evaluate and review the work performed by the component auditor in respect of the below procedures:</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. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Understand 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 consider 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 | Management's sources of assurance | Planned audit response |
|--|---|---|
| <p>3. Estimation in the valuations of pension balance (Single Entity and 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 both the single entity and 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 2024. This will include representatives from the actuary, colleges and GCRB. | <ul style="list-style-type: none"> Consider the accuracy and completeness of information provided to the actuary. Evaluate the professional competence of the actuary. Consider the appropriateness of assumptions used by the actuary. Consider the reasonableness of actuarial estimates on material elements of the valuation. <p>For the group, we will evaluate and review the work performed by the component auditor in these areas.</p> |

Source: Audit Scotland

18. As set out in ISA (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.

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 for GCRB as the main expenditure streams are: staff costs, which can be readily forecast based on a predictable pattern of spend; and other operating expenditure, most of which is linked to corresponding SFC funding, and can be readily agreed to third party evidence.

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

Regularity

21. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

22. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Group Consideration

23. As group auditors, we are required under 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.

24. 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 risk assessment procedures, we assessed that all three 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.

25. 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 and evaluate and review their work where required. 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.

Wider Scope and Best Value

Introduction

26. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit. It requires auditors to consider the adequacy of the arrangements in place for wider scope areas in audited bodies.

27. The Code of Audit Practice and supplementary guidance includes provisions relating to the audit of less complex bodies. The Code provides for an alternative audit approach where an audited body might be considered to be less complex due to its size and its limited financial activity. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body, the audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services.

28. GCRB's financial transactions are considered low volume and non-complex. We therefore plan to apply the 'less complex body' provisions of the Code in our audit of GCRB. Our audit of the wider scope will include:

- **Financial sustainability** – we will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Governance** – we consider the effectiveness of the governance arrangements to support delivery. We review the Governance Statement and consider whether disclosures appropriately reflect the arrangements in place and the activities which took place in 2023/24.

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 GCRB.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

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

31. 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
- GCRB and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit.

32. [Exhibit 4](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. As in previous years, GCRB have indicated that they will seek an extension to the 31 December 2024 deadline stated in the Scottish Funding Council 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 and Annual Audit Report by 31 January 2024.

Exhibit 4 2023/24 Audit outputs

| Audit Output | Target date | Audit and Assurance Committee Date |
|------------------------------|-----------------|------------------------------------|
| Annual Audit Plan | 30 June 2024 | 28 May 2024 |
| Independent Auditor's Report | 31 January 2025 | TBC January 2025 |
| Annual Audit Report | 31 January 2025 | TBC January 2025 |

Source: Audit Scotland

33. All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.



Timetable

34. 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 5](#) that has been discussed with management.

35. 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 5

Proposed annual report and consolidated financial statements timetable

|  Key stage |  Provisional Date |
|---|--|
| Latest submission date for the receipt of the unaudited annual report and single-entity financial statements with complete working papers package | 28 October 2024 |
| Latest submission date for the receipt of the unaudited consolidated financial statements with complete working papers package. | 2 December 2024 |
| Latest date for final clearance meeting with management | 11 December 2024 |
| Issue of draft Letter of Representation and proposed Independent Auditor's Report | 6 January 2025 |
| Issue of Annual Audit Report to those charged with governance | |
| Agreement of audited and unsigned annual report and consolidated financial statements | |
| Signed Independent Auditor's Report | 31 January 2025 |

Source: Audit Scotland

Audit fee

36. 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. Fee levels are also impacted by inflation which increases the cost of audit delivery. The audit fee for 2023/24 is £37,700.

37. In setting the fee for 2023/24, 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

38. 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.

39. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will consider internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

40. I am independent of GCRB in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

41. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard 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.

42. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of GCRB.

Audit Quality

43. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

44. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

45. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

46. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

47. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Glasgow Colleges Regional Board

Annual Audit Plan 2023/24

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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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk