

New College Lanarkshire

Annual Audit Plan 2023/24



Prepared for New College Lanarkshire

May 2024

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Introduction

Summary of planned audit work

1. I, Louisa Yule, have been appointed by the Auditor General for Scotland as external auditor of New College Lanarkshire (the college) for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of my five-year audit appointment. A brief biography of the audit team is provided at [Appendix 1](#).

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

- inspection of the design and implementation of the key controls within the main accounting systems
- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published with the annual report and accounts, including the Performance Report, 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

Respective responsibilities of the auditor and the college

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

The college's responsibilities

6. The college 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 in the annual report and accounts in accordance with applicable requirements.

7. The 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.

8. The audit of the annual report and accounts does not relieve management or the Audit and Risk Committee as those charged with governance, of their responsibilities.

Adding Value

9. My team and I aim to add value by: tailoring audit work to the circumstances of the college and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Audit and Risk Committee; and by recommending and encouraging good practice. In so doing, we aim to help the college promote improved standards of governance, better management and decision making, and more effective use of resources.

Communication of fraud or suspected fraud

10. In line with ISA (UK) 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements), 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. During our audit, 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.

Annual report and accounts

Introduction

11. The annual report and accounts are an essential part of demonstrating the college’s stewardship of resources and its performance in the use of those resources.

12. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual report and accounts, 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.

13. 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

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. 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

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

Exhibit 1

2023/24 Materiality levels for the college and its group (Region including NCL, Amcol and South Lanarkshire College)

Materiality	College	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 the college’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.	£1.230 million	£1.700 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 65% of planning materiality.	£0.800 million	£1.110 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. This has been set at approximately 5% of our planning materiality.	£60 thousand	£85 thousand

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

16. Our risk assessment draws on our cumulative knowledge of the college, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management and 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 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 financial statements

Significant risk of material misstatement	Management’s sources of assurance	Planned audit response
1. Risk of material misstatement due to fraud caused by management override of controls As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud	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.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>because of management's ability to override controls that 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. • Evaluate significant transactions outside the normal course of business. • 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. • Focussed testing of accounting accruals and prepayments.
<p>2. Estimation in the 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>All land and buildings are valued every five years with a desktop valuation carried out during the five year period. The last full revaluation was carried out on 31 August 2020 with a desktop valuation carried out on 31 July 2024.</p> <p>Values can change materially year on year, and it is important that the college, in line with accounting standards</p>	<ul style="list-style-type: none"> • Revaluations completed by Royal institute of Chartered Surveyors (RICS) qualified surveyors. • Detailed working papers retained to support asset reviews and impairments. 	<ul style="list-style-type: none"> • Critically assess the approach the college has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. • Challenge management's assessment of why it considers that the land and buildings not revalued in 2023/24 are not materially misstated. We will critically assess the appropriateness of any assumptions. • Test any revaluation adjustments made and ensure any adjustments have been accounted for accurately. • Test the reconciliation between the financial ledger and asset register. • Evaluate the college's impairment assessment. • Critically assess the adequacy of the college's disclosure regarding the assumptions, and estimation uncertainty, in relation to the valuation of land and buildings.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>ensures the financial statements accurately reflect the value of the land and buildings.</p> <p>There is a risk, in years where a valuation is not carried out, that there is a material difference between the carrying value and fair value of the college's land and buildings.</p>		

Source: Audit Scotland

19. 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 income. We have considered the risk over income recognition and the risk of fraud over expenditure in accordance with Practice Note 10 (Audit of financial statements and regularity of public sector bodies in the United Kingdom).

20. For both fraud over income and expenditure, we have rebutted the presumption that a risk of material misstatement due to fraud exists. Our assessment is on the basis that:

- there are generally no incentives for staff to commit fraudulent financial reporting,
- a significant portion of the college's income comes from funding from other public sector bodies, primarily the Scottish Funding Council. This income can be readily agreed to funding announcements. Additionally, the college's other income streams mainly comprise of high volume, low value items, such as student fees, that are unlikely to result in a material misstatement due to fraud.
- most expenditure is in low-risk areas where individual transactions are well controlled (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale.
- evidence from the college's participation in the National Fraud Initiative does not indicate material risks.

21. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We have not, therefore,

incorporated specific audit work in our audit 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 have identified one other area where we consider there to be a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risks, we do not consider this to represent a significant risk. We will keep this area under review as our audit progresses.

23. The area of specific audit focus is:

- **Pension balance:** There are significant actuarial assumptions used with a high degree of complexity in calculating this balance. We have identified this is an area of risk due to the level of complexity, estimation uncertainty and extent of assumptions used in this area.

24. 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).

25. 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

26. 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.

27. The college has a group which comprises the single entity and two components, South Lanarkshire College and Amcol. Through our audit planning procedures, we have assessed that South Lanarkshire College is 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.

28. The audit of South Lanarkshire College is performed by another audit team within Audit Scotland. We plan to place reliance on the work of this component auditor and review their relevant working papers.

29. We will obtain sufficient appropriate evidence in relation to the overall consolidation process and 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

30. 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.

31. 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, including financial information reported to the college's Board of Management and committees 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), reviewing the college's assessment against the Code of Good Governance for Scotland's College's and, Internal Audit's annual report.
- **Remuneration and Staff Report:** Obtaining and reviewing payroll data and HR reports.

32. Updates were required to the draft Performance Report, Governance Statement and Remuneration and Staff Report in 2022/23 to ensure compliance with the guidance. We will be following up our recommendation in this area from our 2022/23 annual audit report. As part of our 2023/24 audit planning, we have held discussions with the relevant staff at the college who prepare these statements to share good practice.

Wider Scope and Best Value

Introduction

33. 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, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

34. In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. 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. We will also comment on the 2023/24 financial position and longer-term sustainability of the college in our annual audit report.
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the college. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – audited bodies must make best use of their resources to meet stated outcomes and improvements objectives. We will consider how the college demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risk

35. We have identified one significant risk in the wider scope areas as set out in [Exhibit 3](#). This exhibit sets out the risk, management's sources of assurance for the risk, and the further audit procedures we plan to perform to gain assurances over the risk.

Exhibit 3**2023/24 wider scope risks**

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Financial sustainability</p> <p>An underlying operating deficit of £3.142m million (NCL and Amcol) was incurred in 2022/23 due to movements in pay expenditure, the costs associated with a voluntary severance program and underachievement of credits which resulted in a clawback of income.</p> <p>The college is forecasting an underlying operating deficit of around £935 thousand (NCL and Amcol). In addition, the college is experiencing cashflow challenges. To maintain liquidity, a funding advance was required from the SFC.</p> <p>The college, in line with the sector as a whole, is operating in a challenging financial environment. This is due to flat-cash settlements from the SFC, the cost of inflation, a high fixed cost base and the cost of implementing future pay settlements.</p>	<p>The college has experienced some significant operational challenges over the last few years which has resulted in a weak operating position and ongoing serious liquidity challenges. The College has recognised this and the Executive Board has worked with the Regional Board and external consultants to develop a Forward Plan which has been submitted to the SFC for review and consideration. This Forward Plan includes a number of initiatives to move out of the weak operating position and the College is working closely with the SFC on support mechanisms with the liquidity challenges.</p>	<ul style="list-style-type: none"> • Review of the college's forward plan submitted to the SFC, and plans to address the college's underlying deficit. • Review of financial monitoring reports to assess the financial position. • Consider the college's updated three-year financial forecast return (FFR) submitted to the Scottish Funding Council.

Source: Audit Scotland

36. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits,

but we will remain cognisant of challenges identified in prior years such as climate change.

Duty of Best Value

37. [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 the college.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

- 38.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs, as detailed in [exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.
- 39.** 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.
- 40.** 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.
- 41.** [Exhibit 4](#) 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 2024.

Exhibit 4
2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee (ARC) Date
Annual Audit Plan	30 June 2024	13 May 2024
Independent Auditor's Report	31 December 2024	2 December 2024 ARC 9 December 2024 Board
Annual Audit Report	31 December 2024	2 December 2024 ARC 9 December 2024 Board

Source: Audit Scotland



Timetable

42. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

43. We intend to take a hybrid approach to the 2023/24 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 5

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited Performance Report and Governance Statement	14 October 2024
Latest submission date for the receipt of the New College Lanarkshire single entity unaudited annual report and accounts with complete working papers package	21 October 2024
Latest submission date for the receipt of the consolidated annual report and accounts with complete working papers package	28 October 2024
Latest date for final clearance meeting with the Chief Resources Officer and Financial Controller, agreement of the audited and unsigned annual report and financial statements and the proposed annual audit report	22 November 2024
Issue of proposed annual audit report, letter of management representation and proposed Independent Auditor's Report to those charged with governance (Audit and Risk Committee)	2 December 2024
Presentation of proposed annual audit report to those charged with governance (Audit and Risk Committee)	2 December 2024
Approval of the college's annual report and accounts by the Board of Management. Independent auditor's report signed following this approval and the final annual audit report issued.	9 December 2024

Source: Audit Scotland

Audit fee

44. In determining the audit fee, we have taken account of the risk exposure of the college and the planned management assurances in place. The audit fee for 2023/24 is £75,470 (2022/23 £71,190).

45. In setting the fee for 2023/24, we have assumed that the college has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and 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

46. It is the responsibility of the college to establish adequate internal audit arrangements. The college's internal audit function is provided by Wylie & Bisset.

47. While we are not planning to place formal reliance on the work of internal audit in 2023/24, 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

48. Auditors appointed by the Auditor General for Scotland 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.

49. 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.

50. 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 the college.

Audit Quality

51. 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](#).

52. 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.

53. 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.

54. 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.

55. 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.

Appendix 1: Your audit team

56. The audit team involved in the audit of the college have significant experience in public sector audit.

Louisa Yule
Senior Audit Manager
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Louisa is the appointed auditor for the audit of the college and will sign off the independent auditor's report on New College Lanarkshire's annual report and accounts. Louisa has 19 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

Jack Kerr
Senior Auditor
jkerr@audit-
scotland.gov.uk

Jack has experience of delivering audits across several areas of the Scottish public sector including further education colleges. Jack will be your primary contact and will be responsible for the day-to-day management of the college audit

New College Lanarkshire

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

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



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