Item 07
For Approval

Glasgow Kelvin College

Annual Audit Plan 2022/23

AUDIT SCOTLAND

Prepared for Glasgow Kelvin College
August 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 Kelvin 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 Corporate 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 Glasgow Kelvin 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 Glasgow Kelvin 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 the College promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and Glasgow Kelvin College

6. The Code of Audit Practice 2021 sets out in detail the respective responsibilities of the auditor and Glasgow Kelvin 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 accounts. We also review and report on the wider scope arrangements in place at Glasgow Kelvin College. In doing this, we aim to support improvement and accountability.

Glasgow Kelvin College responsibilities

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

10. Glasgow Kelvin 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 Glasgow Kelvin 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. The materiality values for Glasgow Kelvin College are set out in Exhibit 1.

Exhibit 1
2022/23 Materiality levels for Glasgow Kelvin 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 Glasgow Kelvin College's operations. For the year ended 31 March 2023 we have set our materiality at 1.75% of gross expenditure based on the audited financial statements for 2021/22.	£0.60 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 considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£0.45 million

Reporting threshold (ie clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£30,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of Glasgow Kelvin 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
1. Risk of material misstatement due to fraud caused by management override of controls 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 otherwise appear to be operating effectively.	Owing to the nature of this risk, assurances from management are not applicable in this instance	• Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas.

Significant risk of material misstatement	Sources of assurance	Planned audit response
		• 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. • Focussed testing of accounting accruals and prepayments.
2. Estimation in the valuation of land and buildings. 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. All non-current assets are revalued on a five-year rolling basis. Values may also change year on year, and it is important that Glasgow Kelvin College ensures the financial statements accurately reflect the value of the land and buildings.	• The College requests a formal valuation every 5 years. A full valuation was carried out by Avison Young as at 31 July 2022 • An index based valuation is carried out by Avison Young for the years in which a full valuation does not take place. Management will consider the results of the indexation report • Management will consider impairment of land and buildings.	• Review the information provided to the external valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. • Challenge management's assessment of why it considers that the land and buildings not revalued in 2022/23 are not materially misstated. We will critically assess the appropriateness of any assumptions. • Critically assess the adequacy of the College's disclosures regarding the assumptions in relation to the valuation of land and buildings.
3. Estimation in the valuation of pension asset/liability	• The College obtains actuarial reports for both Strathclyde	• Review of information provided by the College to its actuary.

Significant risk of material misstatement	Sources of assurance	Planned audit response
Glasgow Kelvin College is a member of the Strathclyde pension fund (i.e. the local government pension scheme) and accounts for it under the relevant accounting standard (FRS 102). At 31 July 2022 the net asset was £11.9 million. The present value of the retirement (pension) obligations depends on a number of factors that are determined on an actuarial basis underpinned by a series of assumptions. There is a risk that errors in the information provided to the actuary or in the underlying assumptions, or late information, can result in a material misstatement.	Pension Funds, funded and unfunded • The College met with finance representatives from Glasgow Clyde and City of Glasgow colleges, the actuary (Hymans Robertson) and with Audit Scotland (in an observing capacity) on 31 July 2023 to review and discuss the actuarial assumptions. • The College will have a further meeting with the Chair of the Audit and Risk (A&R) committee and key finance experienced A&R committee members. • In addition to the standard report the College has requested an Asset Ceiling calculation with a view to capping the Asset Value of the pension fund taking into account any Audit Scotland "guidance" on the matter.	• Completion of 'review of the work of an expert' in respect of the actuary including a review of actuarial assumptions. • Review evidence confirming that the College's management has assessed the estimate provided by its actuary. • Testing of pension disclosures in the financial statements, including disclosures in the key estimates and judgements note.

Source: Audit Scotland

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 for Glasgow Kelvin College because the majority of income is from government sources, either the Scottish Funding Council or the Student Awards Agency Scotland. As such this can be verified.

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 stream of the Glasgow Kelvin College is staff costs and this can be readily forecast based on a predictable pattern of spend.

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

Wider Scope and Best Value

Introduction

21. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider the adequacy of the arrangements in place.

22. Our planned work on our wider scope responsibilities is risk based and proportionate. In addition to local risks we consider challenges which are impacting the public sector as a whole. In summary, the four 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, bribery and corruption.

- **Financial sustainability** - we will consider the use of the going concern basis of accounting as part of the annual audit. We will also look at planning for the medium term (two to five years) and longer term (longer than five years).

- **Vision, leadership and governance -** we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by Glasgow Kelvin College. We also consider the effectiveness of the governance arrangements to support delivery.

- **Use of resources to improve outcomes -** we will consider how Glasgow Kelvin College 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 and the Scottish Parliament has set a legally binding target of becoming net zero by 2045. We will gather information on Glasgow Kelvin College'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 they can have on both the finances and operation of an organisation. In 2022/23, we will consider Glasgow Kelvin College's arrangements for managing and mitigating cyber security risks.

Duty of Best Value

23. 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 the College to have a strategy for reviewing systematically 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 Glasgow Kelvin College.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

24. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in Exhibit 6, and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

25. 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.

26. We will provide an independent auditor's report to Glasgow Kelvin College, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will also 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.

27. Exhibit 3 outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by 31 December 2023.

Exhibit 3
2022/23 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	30 June 2023	5 September 2023*
Independent Auditor's Report	9 November 2023	16 November 2023
Annual Audit Report	9 November 2023	16 November 2023

Source: Audit Scotland
* = Annual audit plan was agreed with management on 14th July 2023.

Timetable

28. 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 4 that has been discussed with management.

29. 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.

30. 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.	26 September 2023
Latest date for final clearance meeting with the Director of Finance (or equivalent)	31 October 2023
Agreement of audited and unsigned annual report and accounts	9 November 2023
Issue of draft Letter of Representation, proposed Independent Auditor's Report and Annual Audit Report to those charged with governance.	9 November 2023
Consideration of audited annual report and financial statements and audit reporting by those charged with governance	16 November 2023
Signed Independent Auditor's Report (on or after)	13 December 2023

Source: Audit Scotland

Audit fee

31. Following the audit appointment process there has been an increase in our audit fees for 2022/23. This reflects the current audit market and the rising costs of increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

32. The audit fee for the 2022/23 audit of Glasgow Kelvin College has been set at the baseline level of £60,700 (£40,580 in 2021/22). This audit fee assumes that the College has effective governance arrangements and will prepare comprehensive and accurate financial statements 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

33. It is the responsibility of Glasgow Kelvin College to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

34. From our initial review of the internal audit plans, we do not plan to place formal reliance on the work of internal audit in 2022/23 for our financial statements audit responsibilities. We do plan to consider the findings of internal audit across a range of work including:

- Payroll
- Budgetary Control/ Financial Planning
- Student Fees and Contracts/ Registry
- Performance Reporting/ KPIs
- Cyber Security
- Credits
- Bursary, childcare and hardship funds.

Independence and objectivity

35. 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.

36. 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.

37. The appointed auditor for Glasgow Kelvin College is Stuart Nugent, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the College.

Audit Quality

38. 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.

39. 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.

40. 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.

41. 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.

42. 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

43. The audit team involved in the audit of Glasgow Kelvin College has significant experience in public sector audit.

Stuart Nugent Senior Audit Manager snugent@audit.scotland.gov.uk	Stuart has over 20 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.
Alison Turner Audit Manager alturner@audit.scotland.gov.uk	Alison has considerable experience in planning and delivering audits. Alison will work alongside Stuart to deliver the audit.
Grace Symes Auditor gsymes@audit-scotland.gov.uk	Grace has worked on a range of audits covering health and local government. Grace will manage the team and work alongside Stuart and Alison to deliver the audit.
Kirsty McCartney Trainee Auditor kmccartney@audit-scotland.gov.uk	Kirsty is a professional trainee and is currently studying for her ICAS qualification. Kirsty has worked on central government audits.

44. 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.

45. Where possible and appropriate, we use our data analytics team to enable us to capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

Glasgow Kelvin College

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

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