

Audit & Risk Committee - Action and Decision Log
Meeting No 40 – 6 June 2023

(Paper 1a)

Meeting Date	Agenda Item	Reference	Details	Action Owner	Due Date	Action Decision	Open Complete Approved Declined
22/11/2022	2021-22 Internal Audit Annual Report	ARC38: A02	S Morrison to confirm the stance of BDO in benchmarking as part of the audit process and provide further details to the Principal.	J Thomson / BDO	23/11/2022	Action	Complete
14/03/2023	Internal Audit – Wylie & Bisset - Internal Audit Report 2022-23 – Safeguarding & Child Protection	ARC39: A01	A glossary of the key policies examined, including their version number, to be included in future reports from Wylie & Bisset	J Thomson / Wylie & Bisset	06/03/2023	Action	
14/03/2023	2022-23 Corporate Risk Register (V3) as at March 2023	ARC39: A02	Key milestones/timeline updates in regard to actions to be included in the Corporate Risk Register for risk scores outwith the risk appetite going forward.	J Thomson	06/03/2023	Action	Complete
14/03/2023		ARC39: D01	The Committee recommended 2022-23 Corporate Risk Register (V3) as at March 2023 the Board for approval.	NA	NA	Decision	Approved

Ayrshire College

Internal Audit 2022-23

Risk Management
May 2023

Overall Conclusion

Strong

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The matters raised in this report came to our attention during the course of our audit and are not necessarily a comprehensive statement of all weaknesses that exist or all improvements that might be made.

This report has been prepared solely for Ayrshire College’s individual use and should not be quoted in whole or in part without prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any third party.

We emphasise that the responsibility for a sound system of internal control rests with management and work performed by internal audit should not be relied upon to identify all system weaknesses that may exist. Neither should internal audit be relied upon to identify all circumstances of fraud or irregularity should there be any although our audit procedures are designed so that any material irregularity has a reasonable probability of discovery. Every sound system of control may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas that are considered to be of greatest risk and significance.

Overview

Purpose of review

The purpose of the review was to ensure that the College has appropriate risk management arrangements in place and that these have been embedded throughout the whole College. This review looked to provide assurance to the Audit & Risk Committee that the College's risk management arrangements are adequate.

This Assignment forms part of our 2022/2023 Internal Audit Annual Plan.

Scope of review

Our objectives for this review were to ensure:

- The College has set out clearly its strategic direction in relation to risk management (including policy, roles and responsibilities, objectives and communications).
- The College has adopted a systematic process in identifying, evaluating, and measuring its strategic and operational risks.
- The College has adequate reporting in relation to risk management activities.
- The College is providing appropriate risk management training.

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

Limitation of scope

There was no limitation of scope.

Background Information

Risk Management Policy

The College has a Risk Management Policy in place which was last reviewed in September 2022 and is next due to be reviewed in September 2024. The Policy outlines the College's Risk Management procedures including the monitoring and review arrangements and the roles and responsibilities of key parties involved in the Risk Management process.

As an appendix to the Policy the College also provide its Risk Methodology. This details how risks are categorised and scored as well how risk appetite is considered.

Roles and Responsibilities

The roles and responsibilities of the Board of Management and Executive Leadership Team involved in the Risk Management process are documented within the Risk Management Policy, these are:

Board of Management

- Determining whether the College is 'risk taking' or 'risk averse' as a whole or on any relevant strategic objective of the Board of Management;
- Determining the level and types of risk which are acceptable for specific strategic objectives;
- Setting the standards and expectations of members of staff with respect to conduct and probity;
- Approving major decisions affecting the College's risk profile or exposure;
- Monitoring the management of significant risks to reduce the likelihood of significant adverse outcomes; and
- Satisfying itself that the less significant risks are being actively managed, with the appropriate controls in place and working effectively.

Executive Leadership Team

- Ensuring policies on risk management and internal control are implemented.

1 EXECUTIVE SUMMARY

- Identifying, evaluating, and agreeing the significant risks faced by the College for approval by the Audit and Risk Committee and onward reporting to the Board of Management.
- Providing adequate information in a timely manner to the Board of Management and its committees on the status of risks and controls.

The Audit & Risk Committee is charged with reviewing, discussing, and approving the Risk Register at each Committee meeting.

Risk Management Methodology – Matrix

The College document its Risk Assessment Methodology as an appendix to its Risk Management Policy. The College assess risks using a 5x5 risk matrix which is shown below:

Likelihood	Almost certain	5	10	15	20	25
	Likely	4	8	12	16	20
	Possible	3	6	9	12	15
	Unlikely	2	4	6	8	10
	Rare	1	2	3	4	5
		Insignificant	Minor	Significant	Major	Extreme

Impact

For the above, all classifications of likelihood and impact have outlined definitions so all members of staff involved in Risk Management can arrive at the same conclusions and so risks are scored appropriately.

The overall risk score is calculated as likelihood x impact and is classified using the table below:

Classification	Risk Score	Colour ID
Very Low	1-4	Grey
Low	5-8	Blue
Moderate	9-14	Green
Medium	15-19	Yellow
High	20-25	Red

Risk Appetite

The College assesses risk appetite for each individual risk. This is initially assessed by each of the committees and ultimately appetite is approved by the Board of Management at each meeting. Risk Appetite is defined as one of the following 5 categories.

Averse:

Avoidance of risk and uncertainty is a key organisational objective. Willing to accept no risk, or at most, very low risk.

Minimal:

Preference for ultra-safe business delivery options. Willing to accept low risk but recognise that this limits the potential for reward.

Cautious:

Preference for safe delivery options. Willing to accept medium risk but recognise this may limit the potential for reward.

Open:

Willing to consider all options and choose the one that is most likely to result in success. Willing to accept high risk, as long as this will give an acceptable level of reward.

Hungry:

Eager to be innovative and to choose options that offer potentially higher rewards, despite greater inherent risk. Willing to accept very high risk.

Risk Register

The College has 3 types of Risk Registers, Corporate (Strategic), Operational and Capital Projects. The strategic registers are reviewed quarterly at the meetings of the Learning Teaching & Quality Committee, Business, Resources & Infrastructure Committee, Audit & Risk Committee, and the Board of Management.

The Corporate risk register is split into individual registers for each committee to review relevant risks and ensure no duplication of effort. The Register contains 18 risks, no risks were assessed High.

Operational Risk Registers are overseen by the Business Continuity Steering Group and are reviewed quarterly. The registers follow the same format as the Corporate Risk Registers and provides detail on:

- Appetite;
- Risk Details;
- Previous assessment;
- Assessment v Appetite;
- Movement Required;
- Existing Controls; and
- Risk Owner.

1 EXECUTIVE SUMMARY

For Capital Projects over £2million, the College maintain a separate register. Currently the College only have one project that meets the above threshold - Willie Mackie Skills Hub (Approx 2.5million). The Register utilises a RAG scoring system (Red, Amber, Green). The Risk Register tracks priority actions to be taken and progress against these actions.

Work Undertaken

We undertook the following for each objective.

Objective 1: The College has set out clearly its strategic direction in relation to risk management (including policy, roles and responsibilities, objectives, and communication).

- We reviewed the College's Risk Management Policy in place to ensure it was robust and up to date.
- We assessed whether the College has a defined risk appetite in place.
- We reviewed the College's Strategic Plan to ensure strategic aims and objectives of risk management were clearly outlined.
- We reviewed the roles and responsibilities, outlined within the Policy of those who are involved in the Risk Management processes.
- We benchmarked the College's Risk Register to a similar College.

Objective 2: The College has adopted a systematic process in identifying, evaluating, and measuring its strategic and operational risks.

- We ensured there was a robust system in place for identifying, monitoring, and acting on risks identified.
- We reviewed the College's Risk Register's to ensure that risks are being appropriately identified and monitored.
- We reviewed the controls that the College have in place to mitigate the risks.

Objective 3: The College has adequate reporting in relation to risk management activities.

- We reviewed the reporting arrangements in place at the College between the Committees and Board to ensure that they are being appropriately updated on existing and emerging risks to the College.

Objective 4: The College is providing appropriate risk management training.

- We reviewed the training that was provided to the College's staff to ensure that they are aware of the risk management arrangements at the College.

Conclusion

Overall conclusion

Overall Conclusion: Strong

We can provide strong assurance surrounding the College's Risk Management arrangements. As such, we have raised a number of good practice points. We have, however, raised one observation. Please see **Section 3: Observations** for further information.

Summary of recommendations

Grading of recommendations

	High	Medium	Low	Total
Risk Management	0	0	0	0

As can be seen from the above table there were no recommendations made.

Areas of good practice

The following is a list of areas where the College is operating effectively and following good practice.

1.	Risk is a standing agenda item and is discussed at all quarterly meetings of the Learning Teaching & Quality Committee, Business, Resources & Infrastructure Committee, Audit & Risk Committee and Board of Management.
2.	The College committees will consider any emerging or changing strategic risks at their quarterly meetings along with the review of the focused Risk Register. During these meetings risks outwith the agreed appetite will be evaluated and mitigating controls reviewed. Operational Risk Registers are reviewed quarterly by the Business Continuity Steering Group and follow the same format as the Corporate Registers.
3.	The College has effective procedures in place for the identification, evaluation and measuring of risk. Quarterly committee meetings are used to discuss risk on an ongoing basis where mitigating actions and risk appetite are considered. The College has awareness of its risk environment and is taking appropriate actions to mitigate key and emerging risks.
4.	The College Strategic Risk Register is reviewed at the quarterly meetings of the Learning Teaching & Quality Committee, Business, Resources & Infrastructure Committee, Audit & Risk Committee and Board of Management. Individual Risk Registers are produced for each committee meeting to allow for discussion and review for risks relevant to the committee. Risk Appetite is approved by the Board of Management.
5.	The College maintains a Capital Projects Risk Register for projects in excess of £2million. The Register effectively sets out the risks associated at each stage of large cost projects. At the time of this review there is only one project in excess of £2million.
6.	The College has a robust Risk Management Policy which was last reviewed in September 2022 and is due to be reviewed in September 2024. The Policy and supporting appendices provide details of the risk management procedures and methodologies in place at the College. Scoring mechanisms and risk criteria is also clearly defined within the Policy and ensures consistency throughout the classification and scoring of risks.

The following is a list of areas where the College is operating effectively and following good practice.

7.	The Risk Management Policy has clearly defined roles and responsibilities for those involved in the risk management process. This includes the Board of Management, the Audit and Risk Committee and the Executive Leadership Team.
8.	The College's Annual Financial Statement details the risk management arrangements at the College and the main risks that the College face.
9.	The College's Statement of Ambition and Refresh & Renew Plan feeds directly into the Strategic Risk Register and drives the key risks faced by the College. This alignment ensures risks that impact on the strategic direction of the College are being appropriately categorised and assessed.
10.	The College has effectively outlined its scoring system within the Risk Management Policy with adequate description of the scoring processes and matrices utilised.

2 BENCHMARKING

We include for your reference comparative benchmarking data of the number and ranking of recommendations made for audits of a similar nature in the most recently finished internal audit year.

Risk Management

Benchmarking				
	High	Medium	Low	Total
Average number of recommendations in similar audits	0	1	2	3
Number of recommendations at Ayrshire College	0	0	0	0

From the table above it can be seen that the College has a lower number of recommendations compared to those colleges it has been benchmarked against.

The following is a list of observations from our review

- | | |
|----|---|
| 1. | <p>The College ensures Policies and Procedures relating to Risk Management are kept up to date and staff are aware of these.</p> <p>During our review we found the College currently do not complete any benchmarking exercises with comparable colleges. We also note that the lead individual for Risk Management is due to leave the College in the coming months. The College may wish to consider benchmarking its risk management arrangements against similar colleges to potentially strengthen its own processes, familiarise themselves with the risk management procedures and ensure its processes continue to remain up to date and continue to reflect good practice in the sector.</p> |
|----|---|

4 AUDIT ARRANGEMENTS

The table below details the actual dates for our fieldwork and the reporting on the audit area under review. The timescales set out below will enable us to present our final report at the next Audit & Risk Committee meeting.

Audit stage	Date
Fieldwork start	17 April 2023
Closing meeting	27 April 2023
Draft report issued	4 May 2023
Receipt of management responses	9 May 2023
Final report issued	10 May 2023
Audit & Risk Committee	6 June 2023
Number of audit days	5

5 KEY PERSONNEL

We detail below our staff who undertook the review together with the College staff we spoke to during our review.

Wylie & Bisset LLP			
Partner	Graham Gillespie	Partner	graham.gillespie@wyliebisset.com
Director	Stephen Pringle	Director of Internal Audit	stephen.pringle@wyliebisset.com
Senior	Neil Hamilton	Internal Audit Senior	neil.hamilton@wyliebisset.com
Auditor	Kyle McGuinness	Internal Auditor	kyle.mcguinness@wyliebisset.com

Ayrshire College			
Key Contact	James Thomson	Interim Vice Principal of Finance	james.thomson@ayrshire.ac.uk
Wylie & Bisset appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and co-operation.			

APPENDICES

A GRADING STRUCTURE

For each area of review, we assign a level of assurance in accordance with the following classification:

Assurance	Classification
Strong	Controls satisfactory, no major weaknesses found, no or only minor recommendations identified.
Substantial	Controls largely satisfactory although some weaknesses identified, recommendations for improvement made.
Weak	Controls unsatisfactory and major systems weaknesses identified that require to be addressed immediately.
No	No or very limited controls in place leaving the system open to significant error or abuse, recommendations made require to be implemented immediately.

A GRADING STRUCTURE

For each recommendation, we assign a grading either as High, Medium or Low priority depending on the degree of risk assessed as outlined below:

Grading	Classification
High	Major weakness that we consider needs to be brought to the attention of the Audit & Risk Committee and addressed by Senior Management of the College as a matter of urgency.
Medium	Significant issue or weakness which should be addressed by the College as soon as possible.
Low	Minor issue or weakness reported where management may wish to consider our recommendation.

Purpose of review

The purpose of the review is to ensure that the College has appropriate risk management arrangements in place and that these have been embedded throughout the whole College. This review will look to provide assurance to the Audit & Risk Committee that the College's risk management arrangements are adequate.

This Assignment forms part of our 2022/2023 Internal Audit Annual Plan.

Scope of review

Our objectives for this review are to ensure:

- The College has set out clearly its strategic direction in relation to risk management (including policy, roles and responsibilities, objectives and communications).
- The College has adopted a systematic process in identifying, evaluating and measuring its strategic and operational risks.
- The College has adequate reporting in relation to risk management activities.
- The College is providing appropriate risk management training.

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

Limitation of scope

There is no limitation of scope.

Audit approach

Our approach to the review will be:

- Review of risk management arrangements in place, including a review of risk management strategy, policy and framework, where applicable.
- Review of risk registers in place.
- Review of risk management training records for Board of Management and sub-committee members, and staff.
- Discussion with key personnel to establish current arrangements for project management.
- Evaluating these arrangements to confirm their adequacy.
- Review of documentation to confirm that policies and procedures are in place and that current arrangements comply with good practice.
- Sample testing of risks to confirm that procedures are being adhered to.
- Review of training records for Board and Staff members to confirm whether risk management training has been provided.

Potential key risks

The potential key risks associated with the area under review are:

- The College may not have set out clearly its strategic direction in relation to risk management (including policy, roles and responsibilities, objectives and communications).
- The College may not have adopted a systematic process for identifying, evaluating and measuring its key strategic and operational risks.
- The College may not have adequate reporting in relation to risk management activities.
- The College may not be providing appropriate risk management training.

Ayrshire College

Internal Audit 2022-23

Fraud Awareness
May 2023

Overall Conclusion

Strong

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Overview

Purpose of review

We undertook a review of the Fraud Policy in place and also reviewed some of the areas of fraud which we have seen across the sector and tested to see whether there are appropriate controls in place to reduce the risk of fraud in these areas at the College. We also considered the robustness of the fraud response plan.

This review forms part of our 2022/23 Internal Audit Annual Plan.

Scope of review

Our objectives for this review were to ensure:

- The College has a robust Fraud, Theft and Bribery Policy in place that is being adhered to and supported by a Fraud Response Plan.
- The College's Financial Regulations are being adhered to and set out the College's approach to controlling fraud, theft, and bribery.
- The College has controls in place surrounding the setting up of new suppliers, changes to existing suppliers, processing of invoices to suppliers and processing of payments to suppliers that are being adhered to.
- The College has controls in place for month-end reconciliations of creditors, monitoring of dormant bank accounts and credit card transactions that are being adhered to.
- The College take robust action where any potential fraud, theft or bribery is highlighted and this is reported to the relevant committee.

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

Limitation of scope

There was no limitation of scope.

Background Information

We have included for your reference a table including the top 5 fraud risks we have seen throughout our education clients:

Top 5 Fraud Risks		
Risks	Expected Controls	Controls at Ayrshire College
Changes to supplier payment details	<ul style="list-style-type: none"> ➤ Ensure any changes are confirmed with the supplier – using known contact details; ➤ Ensure approval of change is received by the Finance Manager; and ➤ Consider asking for confirmation that payment has been received via follow up phone call. 	<ul style="list-style-type: none"> ➤ Once a supplier has notified the College of a change of payment details, the Finance Team confirm this via direct communication with the supplier using contact details recorded on the College’s accounting system. ➤ The Finance Team complete a ‘Change of Supplier Bank Details Authorisation Form’, and this is checked and approved by the Finance Team Leader when the finance system auto generates the change of bank details e-mail.
Changes to employee bank details	<ul style="list-style-type: none"> ➤ Ensure any changes are confirmed with the employee – using known details; and 	<ul style="list-style-type: none"> ➤ This is completed by each member of staff within their profile.

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	<ul style="list-style-type: none"> ➤ Ensure approval of change is received by the Head of Financial Services. 	<ul style="list-style-type: none"> ➤ This is then confirmed by a member of the Finance Team.
Fraudulent use of dormant bank accounts.	<ul style="list-style-type: none"> ➤ If possible, close all bank accounts that are not in use; ➤ Complete full reviews of dormant bank accounts, where required monthly; 	<ul style="list-style-type: none"> ➤ The College has ensured all dormant bank accounts are closed.
IT Procurement	<ul style="list-style-type: none"> ➤ Closer attention required by Finance teams to ensure purchasing guidelines are being followed; and ➤ Stronger controls over assets – ensuring all items are recorded when received and moved. 	<ul style="list-style-type: none"> ➤ The College has a ‘New Supplier Request Form’ in place for new suppliers. The form includes additional information regarding procurement. If the supplier is not on an APUC Framework Agreement, the College ensure that their Procurement Policy and threshold limits are followed.
Employee expenses	<ul style="list-style-type: none"> ➤ Tighter controls around use of credit cards; ➤ Ensure Senior Management expenditure is appropriately reviewed and approved; ➤ Tighter inventory control over purchase of equipment; and ➤ Challenge from Head of Financial Services re credit card spend. 	<ul style="list-style-type: none"> ➤ Credit card limits have been set for the 2 cardholders at the College. ➤ Credit cards are only used for one-off payments which cannot be purchased any other way. ➤ Monthly credit card statements are reconciled. ➤ All credit card transactions are authorised through the Finance Team Leader.

Financial Regulations

The College has a detailed and robust Financial Regulations Document, which was last updated and approved by the Board of Management in December 2022, and is next due to be reviewed in September 2024. The Financial Regulations has a detailed section titled 'Fraud and Corruption', which outlines the College's approach to potential instances of fraud.

When there is an instance that may involve fraud or corruption, the member of staff who has uncovered the potential fraud must report this to the Vice-Principal – Finance or, in their absence, the Head of Financial Services immediately. The Vice-Principal – Finance immediately advises the Principal of any suspected fraud or corruption, with the Principal considering and deciding on the following responses:

- The Principal will inform the Audit & Risk Committee, the Business Resources and Infrastructure Committee, and the Board of Management as appropriate.
- The Principal shall inform the Police if a criminal offence is suspected or has been committed.
- The Principal and the Audit & Risk Committee shall commission such investigation as may be necessary of the suspected irregularity, by the Internal Audit service or others, as appropriate.

The College's Internal Audit service, or others commissioned to carry out an investigation, shall prepare a report for the Audit & Risk Committee on the suspected irregularity, including advice on preventative measures. If the suspected fraud is thought to involve the Vice-Principal-Finance and/or the Principal, the member of staff should notify the Chair of the Audit & Risk Committee or the Chair of the Board of Management directly or utilise the College's Whistleblowing processes.

Although we note that the Financial Regulations are robust, we have noted certain areas of good practice that we have seen elsewhere that are not included within the Financial Regulations. Please see **Section 3: Detailed Recommendations** for further information.

Fraud, Theft and Bribery Policy

We note that, at the time of our audit, the College does not have a separate Fraud, Theft and Bribery Policy in place. Please see **Section 4: Observations** for further information.

Whistleblowing Process

A member of staff may make the disclosure to a member of the Executive or Senior Leadership Team if they have a concern. If the member of staff does not wish to raise the matter with one of these individuals, or with the Principal or the Chair of the Board of Management, the matter may be raised directly with the Chair of the Audit & Risk Committee. If the concern relates to a member of the Board of Management (including the Principal), it should be raised with the College's Internal Auditors.

Supplier Details

For new suppliers, the College require the supplier to complete a Supplier Information Request. This includes the following information about the supplier:

- Name, address, telephone number for the supplier;
- VAT Registration Number;
- Company Registration Number and Type of Organisation;
- Key Contact details; and
- Banking Details.

This form is then completed, signed, and returned to the College. The College then input the information from the form onto their Open Accounts system by a member of the Finance Team.

Should a supplier wish to change their details on the College's system, the College will contact the supplier via phone call or email to confirm the change. This is then updated by a member of the Finance Team. The College's Open Accounts system allows the Finance Team to run a report that outlines the changes made to suppliers' details, and who it was that made and authorised the change.

Accounting Systems

The College use Open Accounts accounting software which provides the Finance Team with the nominal ledger and meets all functional requirements. The College use eBis for their workflow system.

Purchase Invoice and Suppliers

The procedures for making payments are the responsibility of the Vice-Principal – Finance. The Head of Financial Services is responsible for deciding the most appropriate payment method for invoices. Suppliers are instructed by Budget Holders to submit invoices to the College's Finance Team. Payments are only made by the Finance Team against invoices that have been authorised for payment by the appropriate Budget Holder. The authorisation ensures that:

- The goods have been received, examined, and approved with regard to quality and quantity, or that services rendered, or work done is satisfactory;
- Where appropriate, it is matched to the purchase order;
- Invoice details (quantity, price discount) are correct;
- The invoice is arithmetically correct;
- The invoice has not previously been passed for payment; and
- An appropriate budget code is quoted.

Credit Card Purchases

The control of credit cards at the College is the responsibility of the Vice-Principal-Finance. Currently, there are 2 credit card holders at the College. Holders of credit cards must use them only for purposes that are in line with the purposes of the card and within their authorised limits. Cardholders must obtain approval to purchase from the relevant Budget Holder and ensure that there is sufficient budget to meet the costs. The Director of Finance, Student Funding and Estates determines the information required on purchases made by credit card, with deadlines for receipts in place to be submitted to the Finance Team.

Work Undertaken

In line with each objective, we undertook the following:

Objective 1 - The College has a robust Fraud, Theft and Bribery Policy in place that is being adhered to and supported by a Fraud Response Plan.

- We reviewed the College's Fraud Response Plan to ensure that it is appropriate.
- We enquired about whether a Fraud, Theft and Bribery Policy was in place at the College. **Please see Section 4: Observations for further information.**

Objective 2 - The College's Financial Regulations are being adhered to and set out the College's approach to controlling fraud, theft, and bribery.

- We reviewed the College's Financial Regulations to ensure that they appropriately outline the College's approach to controlling fraud, theft, and bribery. **Please see Section 3: Detailed Recommendations for further information.**

Objective 3 - The College has controls in place surrounding the setting up of new suppliers, changes to existing suppliers, processing of invoices to suppliers and processing of payments to suppliers that are being adhered to.

- We sample tested 10 new suppliers to ensure that they had been appropriately set up on the College's system.
- We sample tested 5 changes to bank details from existing suppliers to ensure that the appropriate process was followed.
- We sample tested 10 purchase and invoice transactions to ensure that they had been appropriately authorised.

Objective 4 - The College has controls in place for month-end reconciliations of creditors, monitoring of dormant bank accounts and credit card transactions that are being adhered to.

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- We reviewed the process in place for month end reconciliations to ensure that they are accurate and appropriately checked.
- We reviewed whether dormant bank accounts are being monitored.
- We sample tested 10 credit card transactions to ensure that they have been appropriately authorised.

Objective 5 - The College take robust action were any potential fraud, theft or bribery is highlighted and this is reported to the relevant Committee.

- We reviewed the fraud reporting arrangements in place.

Conclusion

Overall conclusion

Overall Conclusion: Strong

We are able to provide the College with a strong level of assurance relating to the arrangements in place to prevent and react to instances of fraud. As such, we have raised a number of good practice points. We have, however, raised one low grade recommendation for improvement and one observation. Please see **Section 3: Detailed Recommendations** and **Section 4: Observations** for further information.

Summary of recommendations

Grading of recommendations				
	High	Medium	Low	Total
Fraud Awareness	0	0	1	1

As can be seen from the above table there were no recommendations made which we have given a grading of high.

Areas of good practice

The following is a list of areas where the College is operating effectively and following good practice.

1.	The College has an appropriate Fraud reporting framework in place. All actual or suspected incidents should be reported without delay to the Vice-Principal-Finance or, in their absence, the Head of Financial Services immediately.
2.	The College currently has no dormant bank accounts, therefore reducing the chance for fraud to take place in this area.
3.	We sample tested 10 credit card transactions to ensure that they had been appropriately approved and reviewed. We found that all samples required a payment request form and the order receipt was recorded.
4.	Invoices are appropriately reviewed and authorised at the College.
5.	The Finance Team conduct monthly and daily reconciliations on bank accounts. The student records system and accounting system is also reconciled as these have been identified as risk areas.
6.	We sample tested 10 new suppliers which have been set up in the last 12 months. We were able to confirm from our sample testing that the correct procedure for setting up new suppliers had been followed by the College.
7.	We sample tested 10 payments made to suppliers through a recent payment run. We ensured that the payment run is checked and approved. We reviewed each invoice and found that the details matched the information included on the payment run.
8.	We sample tested 5 changes to supplier details to ensure the procedure in place is appropriate. From our sample testing, we were able to confirm that the College are appropriately following the procedures in place for changing supplier details.
9.	The College's robust Fraud Response Plan is outlined within the College's Financial Regulations document.

We include for your reference comparative benchmarking data of the number and ranking of recommendations made for audits of a similar nature in the most recently finished internal audit year.

Fraud Awareness

Benchmarking				
	High	Medium	Low	Total
Average number of recommendations in similar audits	0	2	2	4
Number of recommendations at Ayrshire College	0	0	1	1

From the table above it can be seen that the College has a lower number of recommendations compared to those colleges it has been benchmarked against.

3 DETAILED RECOMMENDATIONS

Financial Regulations			
Ref.	Finding and Risk	Grade	Recommendation
1.	<p>The College should have detailed Financial Regulations in place to govern the financial activities throughout the College.</p> <p>During our review, we found that the College has a detailed and robust Financial Regulations document. We do note, however, that there is no reference to Dormant Bank Accounts in the Financial Regulations, although we note that the College does not have any Dormant Bank Accounts. The College has procedures in place for the following, however, they are not documented in the Financial Regulations or in standalone policies:</p> <ul style="list-style-type: none"> ➤ New Supplier Set Up; and ➤ Changing of Bank Details for Staff and Suppliers. <p>There is a risk that the Financial Regulations do not adequately outline all financial processes within the College.</p>	Low	We recommend that the College includes sections on the aforementioned areas within their Financial Regulations.
Management response			Responsibility and implementation date

3 DETAILED RECOMMENDATIONS

Accepted.

The College will include reference to procedures re dormant bank accounts and new supplier set up and verification checks completed on suppliers and staff bank accounts in the next version of the Financial Regulations when reviewed in 2025.

Responsible Officer: Head of Financial Services

Implementation Date: November 2025

4 OBSERVATIONS

The following is a list of observations from our review

- | | |
|----|--|
| 1. | During our review, we note that the College's Fraud Response Plan is included within the Financial Regulations. However, the College does not have a separate Fraud, Theft and Bribery Policy in place. We note that we have seen this as good practice across the Education Sector. |
|----|--|

5 AUDIT ARRANGEMENTS

The table below details the actual dates for our fieldwork and the reporting on the audit area under review. The timescales set out below will enable us to present our final report at the next Audit & Risk Committee meeting.

Audit stage	Date
Fieldwork start	17 April 2023
Closing meeting	27 April 2023
Draft report issued	4 May 2023
Receipt of management responses	11 May 2023
Final report issued	11 May 2023
Audit & Risk Committee	6 June 2023
Number of audit days	5

6 KEY PERSONNEL

We detail below our staff who undertook the review together with the College staff we spoke to during our review.

Wylie & Bisset LLP			
Partner	Graham Gillespie	Partner	graham.gillespie@wyliebisset.com
Director	Stephen Pringle	Director of Internal Audit	stephen.pringle@wyliebisset.com
Senior	Neil Hamilton	Internal Audit Senior	neil.hamilton@wyliebisset.com
Auditor	Kyle McGuiness	Internal Auditor	kyle.mcguiness@wyliebisset.com

Ayrshire College			
Key Contacts	Liz Walker	Head of Financial Services	liz.walker@ayrshire.ac.uk
	Mary Robertson	Finance Team Leader	mary.robertson@ayrshire.ac.uk
Wylie & Bisset appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and co-operation.			

APPENDICES

A GRADING STRUCTURE

For each area of review, we assign a level of assurance in accordance with the following classification:

Assurance	Classification
Strong	Controls satisfactory, no major weaknesses found, no or only minor recommendations identified.
Substantial	Controls largely satisfactory although some weaknesses identified, recommendations for improvement made.
Weak	Controls unsatisfactory and major systems weaknesses identified that require to be addressed immediately.
No	No or very limited controls in place leaving the system open to significant error or abuse, recommendations made require to be implemented immediately.

A GRADING STRUCTURE

For each recommendation, we assign a grading either as High, Medium or Low priority depending on the degree of risk assessed as outlined below:

Grading	Classification
High	Major weakness that we consider needs to be brought to the attention of the Audit & Risk Committee and addressed by Senior Management of the College as a matter of urgency.
Medium	Significant issue or weakness which should be addressed by the College as soon as possible.
Low	Minor issue or weakness reported where management may wish to consider our recommendation.

Purpose of review

We will undertake a review of the Fraud Policy in place and also review some of the areas of fraud which we have seen across the sector and test whether there are appropriate controls in place to reduce the risk of fraud in these areas at the College. We will also consider the robustness of the fraud response plan.

This review forms part of our 2022/23 Internal Audit Annual Plan.

Scope of review

Our objectives for this review are to ensure:

- The College has a robust Fraud, Theft and Bribery Policy in place that is being adhered to and supported by a Fraud Response Plan.
- The College's Financial Regulations are being adhered to and set out the College's approach to controlling fraud, theft, and bribery.
- The College has controls in place surrounding the setting up of new suppliers, changes to existing suppliers, processing of invoices to suppliers and processing of payments to suppliers that are being adhered to.
- The College has controls in place for month-end reconciliations of creditors, monitoring of dormant bank accounts and credit card transactions that are being adhered to.
- The College take robust action were any potential fraud, theft or bribery is highlighted and this is reported to the relevant Committee.

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

Limitation of scope

There is no limitation of scope.

Audit approach

Our approach to the review will be:

- Discussion with key staff the current status of the recommendations from the Purchase Ledger Fraud investigation. We shall obtain a copy of these and assess what the College has put in place to ensure that these actions are appropriate and fit for purpose. We shall also assess whether the recommendations are being adhered to by staff.
- Obtain and assess the College's policies and procedures in respect of Fraud, i.e. Anit-Fraud and Corruption, Anti-Bribery etc. We shall consider whether these are robust, up to date, accessible to all staff and are fit for purpose.
- Obtain and review the College's Fraud Response Plan. We shall assess whether this is robust, up to date and fit for purpose.
- We shall discuss with relevant staff the fraud training provided to the staff. We shall consider when this training was given, and which members of staff received this training.
- We shall survey a sample of staff to assess their awareness of the documentations and processes the College has in place to deter fraud.
- We shall provide a fraud awareness session to staff on some of the recent examples of fraud which we have dealt.

Potential key risks

The potential key risks associated with the area under review are:

- The College does not have a robust Fraud, Theft and Bribery Policy in place or a Fraud Response Plan.
- The College's Financial Regulations are not being adhered to and do not set out the College's approach to controlling fraud, theft, and bribery.

- The College does not have controls in place surrounding the setting up of new suppliers, changes to existing suppliers, processing of invoices to suppliers and processing of payments to suppliers.
- The College does not have controls in place for month-end reconciliations of creditors, monitoring of dormant bank accounts and credit card transactions.
- The College do not take robust action were any potential fraud, theft or bribery is highlighted and this is not reported to the relevant Committee.



Ayrshire College

Progress Report

2022 - 2023

June 2023



Assignment Plans

A detailed assignment plan will be prepared for each audit undertaken, setting out the scope and objectives of the work, allocating resources and establishing target dates for the completion of the work. Each assignment plan will be agreed and signed off by an appropriate sponsor from the College.

Key Dates

Visit	Audit Areas	No. of Audit Days	Provisional Start Date for Visit	Provisional Date of Issue of Draft Report	Status	Provisional Date for Reporting to Audit Committee
Visit 1	Overall Financial Controls Safeguarding, Wellbeing & Counselling	6 5	30 January 2023	17 February 2023	Completed	14 March 2023
Visit 2	Risk Management Fraud Awareness	5 5	17 April 2023	5 May 2023		6 June 2023
Visit 3	Student Enrolment Follow Up	5 4	3 July 2023 and 10 July	28 July 2023		September 2023
Visit 4	Credits SSF EMA	6 4 4	11 September 2023	29 September 2023		November 2023

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Ayrshire College

External Audit Annual Plan 2022/23

May 2023



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Introduction

Azets have been appointed by Audit Scotland as the external auditor to Ayrshire College (“the College”) for the period 2022/23 to 2026/27.

This document summarises the work plan for our 2022/23 external audit. The core elements of our work include:

- an audit of the 2022/23 annual report and accounts.
- consideration of the wider scope areas of public audit work.
- consideration of the College’s participation in the National Fraud Initiative (NFI).
- any other work requested by Audit Scotland.

We expect that our audit will have a similar underlying approach to that of your previous external auditor, Mazars, although there are some changes to the Code of Audit Practice and auditing standards that come into effect for the first time in 2022/23. These are reflected in this document.

Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We will add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.

Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team.

Openness and transparency

This report will be published on Audit Scotland’s website www.audit-scotland.gov.uk.

Audit scope and general approach

Responsibilities of the auditor and the College

The [Code of Audit Practice](#) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and it is a condition of our appointment that we follow it.

Auditor responsibilities are derived from statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, the Code of Audit Practice and guidance from Audit Scotland.

The College has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing a set of annual report and accounts that are in accordance with proper accounting practices. The College is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

[Appendix 1](#) provides further detail of both our responsibilities and those of the College.

Risk-based audit approach

We follow a risk-based approach to the audit that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:

Discussions with senior officers	Our understanding of the further education sector, its key priorities and risks	Attending & observing the Audit and Risk Committee
Guidance from Audit Scotland	Discussions with Audit Scotland and public sector auditors	Discussions with internal audit and review of plans and reports
Review of the College's corporate strategies and plans	Review of the College's corporate risk register	Outcomes of prior year audits

Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise.

Communication with those charged with governance

Auditing standards require us to make certain communications throughout the audit to those charged with governance. These communications will be through the Audit and Risk Committee.

Professional standards and guidance

We perform our audit of the financial statements in accordance with International Standards on Auditing UK (ISAs (UK)), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting College (FRC).

Partnership working

We coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Audit Scotland

Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps identify common priorities and risks, treat issues consistently across the sector, and improve audit quality and efficiency. We share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

Audit Scotland undertakes national performance audits on issues affecting the public sector. We may review the College's arrangements for taking action on any issues reported in the national performance reports which have a local impact. We also consider the extent to which the College uses the national performance reports as a means to help improve performance at the local level.

During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

Internal Audit

As part of our audit, we consider the scope and nature of internal audit work and look to minimise duplication of effort, to ensure the total audit resource to the College is used as efficiently and effectively as possible.

Delivering the audit – post pandemic

Hybrid audit approach

We will adopt a hybrid approach to our audit which combines on-site visits (as required) with remote working, learning from the better practices developed during the pandemic.

All of our people have the equipment, technology and systems to allow them to work remotely or on-site, including secure access to all necessary data and information.

All of our staff are fully contactable by email, phone call and video-conferencing.

Meetings can be held over Microsoft Teams or by telephone.

We employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

Secure sharing of information

We use a cloud-based file sharing service that enables users to easily and securely exchange documents and provides a single repository for audit evidence.

Regular contact

During the 'fieldwork' phases of our audit, we will arrange regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

Signing annual accounts

Audit Scotland recommends the electronic signing of annual accounts and uses a system called DocuSign.

Electronic signatures simplify the process of signing the accounts and are acceptable for laying in Parliament. Accounts can be signed using any device from any location. There is no longer a need for duplicate copies to be signed, thus reducing the risk of missing a signature and all signatories have immediate access to a high-quality PDF version of the accounts. The College will publish on its website the final version of the accounts without the signatures.

Approach to audit of the annual accounts

Our objective when performing an audit of the annual accounts is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an auditor's report that includes our auditor's opinion.

As part of our general approach, we will:

- perform risk assessment procedures including updating our understanding of the entity and its environment, the financial reporting framework and system of internal control;
- review the design and implementation of key internal controls;
- identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances or disclosures;
- design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these

financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. We include an explanation in the auditor's report of the extent to which the audit was capable of detecting irregularities, including fraud, and respective responsibilities for prevention and detection of fraud.

Key audit developments in 2022/23

Revised auditing standards¹, which come into effect from the current year, will have a significant impact on the way we perform our audit, particularly how we assess the risk of material misstatement, our approach to the audit of fraud, and the ways we ensure our audits are performed in line with regulatory requirements and to a high standard. The in-depth nature of these additional procedures, as well as updated tools and techniques that may come into scope, will also offer additional opportunity to provide insights and constructive feedback on the way the College manages risks. [Appendix 2](#) provides further details on the implications of these new requirements.

Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements. In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both.

The basis for our assessment of materiality is set out in [Appendix 3](#).

Accounting systems and internal controls

The purpose of an audit is to express an opinion on the financial statements. As part of our work, we consider certain internal controls relevant to the preparation of the financial statements such that we are able to design appropriate audit procedures.

¹ Revisions to ISA (UK) 315 on auditors' responsibility to identify and assess the risks of material misstatement in the financial statements and ISA (UK) 240 on material misstatements caused by fraud came into effect for audits of financial statements with periods commencing on or after 15 December 2021.

However, this work is not for the purpose of expressing an opinion on the effectiveness of internal controls.

We will report to the College significant deficiencies in internal controls that we identify during the audit. The scope of our work is not designed to be an extensive review of all internal controls.

Specialised skill or knowledge required to complete the audit procedures

Our intended audit approach is to consult internally with our Technology Risk team for them to support the audit team in assessing the information technology general controls (ITGC).

Going concern

In most public sector entities, the financial reporting framework envisages that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For many public sector entities, the financial sustainability of the entity is more likely to be of significant public interest than the application of the going concern basis. Our wider scope audit work considers the financial sustainability of the College.

Prevention and detection of fraud or error

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control and;
- Are over £5,000.

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

National Fraud Initiative

The National Fraud Initiative (NFI) in Scotland is a biennial counter fraud exercise led by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole. The most recent NFI exercise commenced in 2022, with matches to be received for

investigation from January 2023. As part of our 2022/23 audit, we will monitor the College's participation and progress in the NFI.

Anti-money laundering

We require the College to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

Wider audit scope work

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability. [Appendix 1](#) provides detail of the wider scope areas of public sector audit work. Our initial risk assessment and scope of work planned for 2022/23 is outlined in the '[Wider Scope](#)' section of this plan.

National risk assessment

Where particular areas of national or sectoral risk have been identified by the Auditor General, they will request auditors to consider and report on those risks as they apply at a local level. For 2022/23 the following areas have been identified:

- Climate Change
- Cyber Security

[Appendix 4](#) provides further detail as to the scope of this work.

Reporting our findings

We will provide judgements on the pace and depth of improvement in reporting our findings on wider scope areas. We will use the following gradings to provide an overall assessment of the arrangements in place.



Significant and other risks of material misstatement

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- are required to be treated as significant risks by auditing standards, for example in relation to management override of internal controls.

Significant risks at the financial statement level

The table below summarises the significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Identified risk of material misstatement	Audit approach
<p>Management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.</p> <p>Risk of material misstatement: Very High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals. • Analysing the journals listing and determining criteria for selecting high risk and / or unusual journals. • Testing high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness,

Identified risk of material misstatement	Audit approach
	<p>corroboration and to ensure approval has been undertaken in line with the College’s journals policy.</p> <ul style="list-style-type: none"> • Gaining an understanding of the accounting estimates and critical judgements made by management. We will challenge assumptions and consider the reasonableness and indicators of bias which could result in material misstatement due to fraud. • Evaluating the rationale for any changes in accounting policies estimate or significant unusual transactions.

Significant risks at the assertion level for classes of transaction, account balances and disclosures

The table below summarises the significant risks of material misstatement at the assertion level for classes of transaction, account balances and disclosures.

Identified risk of material misstatement	Audit approach
<p>Fraud in revenue recognition</p> <p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed risk in ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements).</p> <p>The presumption is that the College could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end.</p> <p>In respect of the College's income for Scottish Funding Council (SFC) grant funding, we do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate revenue of this nature. The risk of fraud in relation to revenue recognition is however present in all other revenue streams.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Revenue (occurrence / completeness): High 	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Evaluating the significant income streams and review the controls in place over accounting for revenue. • Considering the College's key areas of income and obtaining evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

Identified risk of material misstatement	Audit approach
<p>Fraud in non-pay expenditure</p> <p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of expenditure around the year end.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Non-pay expenditure (occurrence / completeness): High • Accruals (existence / completeness): High 	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Evaluating the significant non-pay expenditure streams and reviewing the controls in place over accounting for expenditure. • Considering the College’s key areas of expenditure and obtaining evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Reviewing accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Identified risk of material misstatement	Audit approach
<p>Valuation of land and buildings (key accounting estimate)</p> <p>Ayrshire College held land and buildings with a net book value of £125.5 million at 31 July 2022, with external valuations performed on a five-year basis (and with an interim valuation carried out after 3 years). The last valuation took place as at 31 July 2021 and was conducted by Ryden.</p> <p>There is a significant degree of subjectivity in the measurement and valuation of land and buildings. This subjectivity and the material nature of the College's asset base represents an increased risk of misstatement in the financial statements.</p> <p>Inherent risk of material misstatement: Land & Buildings (valuation): High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Evaluating management processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts and the scope of their work. • Evaluating the competence, capabilities, and objectivity of the valuation expert. • Ensuring revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct. • Evaluating the assumptions made by management for any assets not revalued during the year and how management are satisfied that these are not materially different to the current value.

Identified risk of material misstatement	Audit approach
<p>Pension asset / liability (key accounting estimate)</p> <p>An actuarial estimate of the pension fund asset/liability is calculated on an annual basis and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities.</p> <p>A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation, and mortality rates) can have a material impact on the pension asset/liability.</p> <p>There is a risk that the assumptions used are not appropriate.</p> <p>Inherent risk of material misstatement:</p> <p>Pensions (valuation): High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Reviewing the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. • Reviewing the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. • Agreeing the disclosures in the financial statements to information provided by the actuary. • Considering the competence, capability, and objectiveness of the management expert in line with ISA (UK) 500 Audit Evidence.

Wider scope

Introduction

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of audit areas:

- Financial sustainability
- Financial management
- Vision, leadership and governance
- Use of resources to improve outcomes.

Our planned audit work against these four areas is risk based and proportionate. Our initial assessment builds upon our understanding of the College's key priorities and risks along with discussions with management and review of Regional Board and key Committee minutes and key strategy documents.

We have identified one significant risk in relation to financial sustainability as set out in the table below. At this stage, we have not identified any significant risks in relation to the other wider scope areas.

Audit planning however is a continuous process and we will report all identified significant risks, as they relate to the four wider scope areas, in our annual audit report. This section summarises our audit work in respect of each wider scope area.

Wider scope significant risk

Financial sustainability

The College continues to face significant financial challenges, operating within tight financial parameters, and activity continues to plan the measures required to ensure the College is in a long-term sustainable position.

The 2022/23 Financial Forecast Return (FFR), as approved by the Board in September 2022, anticipated an adjusted operating surplus of £0.4m in 2022/23 with future operating deficits totalling £1.4 million expected from 2023/24 to 2026/27.

The greatest risks to the College's sustainability are those around levels of funding from SFC, particularly with the removal of the one-off elements funded through Barnett consequential in 2021/22, and the projected "flat cash" position for 2023/24 and beyond.

Ayrshire College prepared a further realistic forecast which considers the financial impact of a worst-case scenario but limits the College's financial risk/exposure to 25% of the projected deficits. The Alternative FFR anticipated an adjusted operating deficit of £1.4m in 2022/23. This is considered to be overall a more realistic forecast with the College requiring achieving savings of £6.108m in the five-year period. This equates to approximately 13.1% of 2022/23 expenditure budget when considering only staff costs and other operating expenses.

Staff costs continues to be a significant pressure area for the College and a key aspect of the College's ambitious savings plan. With the uncertainty around the public sector pay settlements, any increase in staff costs will have a material impact on the finances of the College. The emerging and uncertain impact on the College's finances and, ability to deliver savings plans and services in a sustainable manner remains a significant challenge and risk.

The underlying rationale within this scenario is that there would be sector support/intervention to mitigate the financial effects of the Alternative Scenario, while recognising that the College would require to find cash releasing efficiency savings at a higher level than those determined by the SFC assumptions.

Our audit response:

During our audit we will review whether the College has appropriate arrangements in place to manage its future financial position. Our work will include an assessment of progress made in developing financially sustainable plans which reflect the medium- and longer-term impact of cost pressures and that continue to support the delivery of the College's statutory functions and strategic objectives.

Our audit approach to the wider scope audit areas



Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Consideration	Our audit approach
<p>Based on our initial assessment the College has adequate arrangements in place for financial planning and monitoring in the short- and medium-term, but the College continues to face significant challenges and uncertainty over the medium term, operating within tight financial parameters.</p> <p>The Financial Forecast Return reported in October 2022 reported an underlying deficit of £0.4 million for the year ending 31 July 2023. An operating deficit position of £1.4 million is expected from 2023/24 to 2026/27. Consideration will be given to identify savings by delivering cash releasing efficiency savings covering both staff and non-staff budget areas.</p> <p>Staff costs continue to be a key pressure which the College is continuing to reflect on through operational planning. There is a significant degree of uncertainty across the sector however, particularly regarding national pay awards. Small changes in assumptions, such as pay increases, could have a significant impact on the underlying operating position.</p> <p>The College has considered a number of scenarios and presented a realistic one which reflects the tight financial environment and the fact that the College is constrained by the funding announced. This is considered to be</p>	<p>We will review and conclude on:</p> <ul style="list-style-type: none"> • The ongoing development of financial planning and modelling to identify and address risks to financial sustainability; • The appropriateness and effectiveness of arrangements in place to address any identified funding gaps; and • Alignment of operational and financial planning over the medium-term, including key areas such as workforce planning and estates management.

Consideration

overall a more realistic forecast with the College requiring achieving savings of £6.108m in the five-year period. This equates to approximately 13.1% of 2022/23 expenditure budget when considering only staff costs and other operating expenses. This scenario also assumes that the SFC would have to provide additional funding or mitigating measures worth £18.326m over the five-year period to the College.

The College's PFI contract ends during financial year 2024/25. This is expected to have a material positive financial effect particularly from financial year 2025/26 and has been considered within their financial forecasting.

Our audit approach



Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Consideration

The College initially estimated an operating deficit of £0.3 million for the year end 31 July 2023, with an adjusted underlying surplus of £0.4 million. This estimate took into account the following:

- a) Core grant funding will remain at 2022/23 levels;
- b) Credit targets remain at 2022/23 levels;
- c) Foundation apprenticeship funding cannot be guaranteed beyond 2022/23;
- d) FWDF income levels from 2023/24 are likely to be reduced;
- e) Capital maintenance funding will remain at 2022/23 levels; and
- f) Pay and pricing uplifts.

The current forecast as at April 2023 is an operating deficit of £1.7 million.

The National Fraud Initiative (NFI) is a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error. The most recent NFI exercise commenced in January 2023, with matches to be investigated by 30 September 2023.

Our audit approach

We will review and conclude on:

- The achievement of financial targets and effectiveness of financial performance reporting during 2022/23;
- Whether the College can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance;
- Whether the College has arrangements in place to ensure systems of internal control are operating effectively;
- Whether the College has established appropriate and effective arrangements for the prevention and detection of fraud and corruption; and
- The College's participation and progress in the National Fraud Initiative.



Vision, Leadership and Governance

Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Consideration

The College has a governance and reporting structure allowing it to receive sufficient and appropriate information throughout the period to support the effective and timely scrutiny and challenge. During our audit we will review in detail the corporate governance arrangements in place, information provided to the Board of Management and Committees, as well as the risk management arrangements in place.

At 31 July 2022, the Board consisted of 14 members, 8 female (including the Principal) and 6 male. The Board should consist of no less than 15 members, as set out in the Post-16 Education Scotland (Act) 2013. The reduction in Board members was caused by unexpected resignations in July 2022 with an additional Board member joining in September 2022.

The tenure of the Chair of the Board ended in March 2022. Following a recruitment process that was led by the Scottish Government, new Chair Fiona McQueen was appointed effective 1 November 2022. We also note that the finance team has lost two senior finance posts during 2022/23 and will consider the impact on the finance function during our audit.

Our audit approach

We will review and conclude on:

- The clarity of the vision and strategy and if these are supported by a set of priorities and links to services and local communities;
- Whether the College can demonstrate that the governance arrangements in place are appropriate and operating effectively;
- Whether inductions and ongoing training arrangements for new Board members support effective scrutiny and challenge;
- The transparency of decision-making, financial reporting and performance data;
- Reasonableness and consistency of the governance statement in relation to other information gathered during our audit.



Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

Consideration

The College approved their Statement of Ambition 2030 and Refresh and Renew Plan 2021-2024 in 2021. This document sits alongside the College’s Outcome and Impact Framework which sets out how we will meet the Scottish Government’s expectations and deliver value for money for the public investment we receive.

Delivery of these plans will be monitored throughout the year. Operational performance is monitored at a Committee and Executive level. The Board receives an annual outturn reporting on performance, outlining performance against target.

Our audit approach

We will review and conclude on:

- The robustness of the College’s performance management framework and the appropriateness of key performance indicators in supporting effective scrutiny and decision making;
- Whether the College can evidence a clear link between prioritised spending and improvement against outcomes; and
- The arrangements in place relating to the best value theme of fairness and equality.

Your Azets audit management team

David Eardley: Engagement Lead

david.eardley@azets.co.uk

David has nearly two decades of experience and specialises in external and internal audit of public sector clients. David's primary area of focus and expertise is in the health and education sectors.

David works with public sector clients ranging from £1.5 billion health boards to specialist government entities. David has a wealth of technical accounting expertise, coupled with strong interpersonal skills and client relationship skills.



Adrian Kolodziej: Engagement Manager

adrian.kolodziej@azets.co.uk

Adrian will manage the delivery of the onsite work and work alongside David to deliver the audit engagement. Adrian has over 14 years of public sector experience performing the external audits of further education, local authorities and central government bodies.



Flo Barrett: Engagement Assistant Manager

flo.barrett@azets.co.uk

Flo will support Adrian in the day-to-day management of the audit. Flo has nearly 10 years of public sector experience, working across the external audits of local authorities, central governments, further education and charitable bodies.



Audit timetable

The submission date for audited annual report and financial statements in further education is with the submission date set by the Scottish Funding Council.

We have set out below target months which align to the College's schedule of Audit and Risk Committee and Board meetings. We aim to meet these scheduled meetings however this will be monitored during the audit process and may require to be revised to reflect emerging issues.

Audit work/output	Description	Target month/s	Audit and Risk Committee	Deadline
Audit strategy	Onboarding and initial engagement, introductory meetings and presentation of audit strategy.	February/ March	14 March 2023	N/A
Audit plan	Planning meetings, understanding the entity, risk assessment. Audit plan setting out the scope of our audit, including key audit risks, presented to the Audit and Risk Committee.	May 2023	06 June 2023	30 June 2023
Interim audit	Interim audit including review of accounting systems.	May- August	N/A	N/A
Final audit	Accounts presented for audit and final audit visit begins	October 2023	N/A	N/A

Audit work/ output	Description	Target month/s	Audit and Risk Committee	Deadline
Independent Auditor's Report	This report will contain our opinions on the financial statements, the audited part of the remuneration and staff report, annual governance statement and performance report.	November/ December 2023	TBD	31 December 2023
Annual Report to the College and the Auditor General for Scotland	At the conclusion of each year's audit we issue an annual report summarising our work and all opinions, conclusions, significant issues and recommendations. This report pulls together all of our work under the Code of Audit Practice.	December 2023	TBD	31 December 2023

Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.

The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

Audit fee

For 2022/23, the new auditor appointment process provided Audit Scotland with a fair representation of the current audit market and highlighted the increasing requirements, expectations and scrutiny of the audit profession.

High quality audit work is essential to successfully deliver a fully ISA and Code of Audit Practice-compliant audit. These factors have led to above inflation increases in the cost of audit. Whilst these increases are significant, they are consistent with evidence obtained from the profession and other UK audit agencies. On setting fees, Audit Scotland has ensured that efficiencies have been fully utilised to mitigate the impact.

In the further education sector, the average fee increase from prior year is 57.5%.

Audit Scotland sets an “expected” audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors’ experience, new requirements, or significant changes to the audited body.

The expected fee level notified to the Board for 2022/23 is £50,970, which is £15,970 (45.6%) higher than the fee agreed in the previous year. It is however lower than the average sectoral increase of 57.5%.

As auditors, we negotiate a fee with the College that reflects our assessment of the work required to address the risks identified during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

We will incur notable additional costs associated with performing the audit for the first time, an increased focus on IT general controls, and high levels of significant audit risks within the FE sector. We will look to complete the audit in line with the revised expected fees, but we will discuss with management over the course of the audit the costs associated with this work to use this first year as an indicator of the actual costs of delivering against all these extended requirements and expectations.

Our audit fee for the current year (with prior year comparatives, as set under the previous tender/appointment round of six years ago) is as follows:

	2022/23	2021/22
Auditor remuneration	£51,070	£31,910
Pooled Costs	(7,490)	£1,630
Audit Support Costs	£1,320	£1,460
Sectoral Cap Adjustment	£6,070	-
Total fee	£50,970	£35,000

We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge a fee for additional audit work. An additional fee will also be required in relation to any other significant exercises not within our planned audit activity.

Auditor independence and objectivity

We are required to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence.

Azets has not been appointed to provide any non-audit services during the year. We confirm that we comply with FRC's Ethical Standard. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets and the College, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 1: Responsibilities of the Auditor and the College

The Auditor General and Audit Scotland

The Auditor General for Scotland is a Crown appointment and independent of the Scottish Government and Parliament. The Auditor General is responsible for appointing independent auditors to audit the accounts of the Scottish Government and most Scottish public bodies, including NHS bodies, and reporting on their financial health and performance.

Audit Scotland is an independent statutory body that co-ordinates and supports the delivery of high-quality public sector audit in Scotland. Audit Scotland oversees the appointment and performance of auditors, provides technical support, delivers performance audit and Best Value work programmes and undertakes financial audits of public bodies.

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland. The [2021 Code](#) came into effect from 2022/23.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Auditor General and it is a condition of our appointment that we follow it.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the College and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management



Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

Financial sustainability



Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Vision, leadership and governance



Audited bodies must have a clear vision and strategy, and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes



Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.

Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>

College Board responsibilities

The College Board has 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 enables it to successfully deliver its objectives. The features of proper financial stewardship include the following:

Area	College responsibilities
Corporate governance	<p>The College is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
Financial statements and related reports	<p>The College has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of its financial position and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable. <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>The College is responsible for developing and implementing effective systems of internal control as well as financial, operational</p>

Area	College responsibilities
	<p>and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The College is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</p>	<p>The College is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p>Financial position</p>	<p>The College is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.

Appendix 2: Impact of revised auditing standards

Revised auditing standards, which come into effect from the current year, will have a significant impact on the way we perform our audit, particularly how we assess the risk of material misstatement, our approach to the audit of fraud, and the ways we ensure our audits are performed in line with regulatory requirements and to a high standard. The table below provides further detail on the implications of these new requirements.

Key change	Potential impact on the College & our approach
<p>Enhanced risk identification and assessment, promoting more focused auditor responses to identified risks</p>	<p>Management and those charged with governance may receive more up-front questions as we plan the audit and identify and assess risks of material misstatement.</p> <p>We may conduct planning and risk assessment procedures at a different time to ensure that our understanding is comprehensive, and that information is leveraged effectively and efficiently.</p> <p>To facilitate a more robust risk-assessment, we may request additional information to enhance our understanding of systems, processes and controls. For example, we may request:</p> <ul style="list-style-type: none"> • a better understanding of the College’s structure and operations and how it integrates information technology (IT) • more information about the College’s processes for assessing risk and monitoring its system of internal control • more detailed narratives about how transactions are initiated, recorded, processed and reported • policies and procedure manuals, flowcharts and other supporting documentation to validate our understanding of the information systems relevant to the preparation of the financial statements • more information to support our inherent risk assessment. <p>This information not only informs our risk assessment but also assists us in determining an appropriate response to risks</p>

Key change	Potential impact on the College & our approach
	<p>identified, including any new significant risks which require a different response.</p>
<p>Understanding and acting on risks associated with IT</p>	<p>We will be asking tailored questions and making information requests to understand the IT environment, including:</p> <ul style="list-style-type: none"> • IT applications • supporting IT infrastructure • IT processes • personnel involved in the IT processes. <p>Combined with the controls that may be needed to address the identified and assessed risks of material misstatement, this understanding may also identify existing and new risks arising from the use of IT. Therefore, we will be asking more focused questions and requesting additional information to understand the general IT controls that address such risks. For example, we may have questions in relation to general IT controls over journal entries (e.g., segregation of duties related to preparing and posting entries) to address risks arising from the use of IT.</p> <p>Depending on our assessment of the complexity of systems and associated risks, we may also involve additional team members, such as IT specialists.</p>
<p>Enhanced procedures in connection with fraud</p>	<p>We will be asking targeted questions as part of an enhanced approach to fraud, including discussing with the College:</p> <ul style="list-style-type: none"> • any allegations of fraud raised by employees or related parties • the risks of material fraud, including those specific to the local government sector. <p>Combined with other information, and any inconsistencies in responses from those charged with governance and management, we determine implications for further audit procedures. Work in connection with fraud may also now include the use of audit data analytics, or the inclusion of specialists in our engagement team to ensure we obtain sufficient appropriate audit evidence to conclude whether the</p>

Key change	Potential impact on the College & our approach
	<p>financial statements are materially misstated as a result of fraud.</p> <p>In addition to existing communication and reporting requirements relating to irregularities and fraud, there may be further matters we report in connection with management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.</p> <p>These enhanced requirements may assist in the prevention and detection of material fraud, though do not provide absolute assurance that all fraud is detected or alter the fact that the primary responsibility for preventing and detecting fraud rests with the College and management.</p>
<p>Enhanced requirements for exercising professional scepticism</p>	<p>Challenge, scepticism and the application of appropriate professional judgement are key components of our audit approach. You may receive additional inquiries if information is found that contradicts what our team has already learned in the audit or in instances where records or documents seen in the course of the audit appear to have been tampered with, or to not be authentic.</p>
<p>Using the right resources, in the right way, at the right time</p>	<p>One of our new strategic quality objectives sets out that we will strive to use the right resource, in the right way, at the right time. This may mean increasing the use of specialists (for example in relation to general IT controls) or changing the shape of the audit engagement team to ensure that we are able to provide appropriate challenge and feedback in specialist areas.</p> <p>This will include appropriate use of technology, including data analytics.</p>

Appendix 3: Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the College and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

	£
Overall materiality for the financial statements	910,000
Performance materiality	682,500
Trivial threshold	45,500

Materiality	<p>Our assessment is made with reference to the College's gross expenditure. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance.</p> <p>Our assessment of materiality equates to approximately 1.7% of the College's gross expenditure as disclosed in the 2021/22 audited annual report and accounts.</p> <p>In performing our audit, we apply a lower level of materiality to the audit of the Remuneration and Staff Report. Our materiality is set at £5,000.</p>
Performance materiality	<p>Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.</p>

	<p>Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.</p>
Trivial misstatements	<p>Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>

Appendix 4: National risk areas under scope of audit in 2022/23

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, and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. A number of public bodies have declared a climate emergency and set their own net zero targets, some of which are earlier than Scotland's national targets. All public bodies will need to reduce their direct and indirect emissions, and should have plans to do so. Many bodies will also have a role in reducing emissions in wider society, and in supporting activity to adapt to the current and potential future impact of climate change. For example, working with the private sector and communities to help drive forward the required changes in almost all aspects of public and private life, from transport and housing to business support.

Public audit has an important and clear role to play in:

- helping drive change and improvement in this uncertain and evolving area of work
- supporting public accountability and scrutinising performance
- helping identify and share good practice.

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

For 2022/23 audits, auditors are required to provide answers to the questions set out in the following table which are intended to gather basic information on the arrangements for responding to climate change in each body:

Key questions

What targets has the body set for reducing emissions in its own organisation or in its local area?

Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?

How does the body monitor and report progress towards meeting its emission targets internally and publicly?

Has the body considered the impact of climate change on its financial statements?

What are the areas of the financial statements where climate change has, or is expected to have, a material impact?

Does the body include climate change in its narrative reporting which accompanies the financial statements and is it consistent with those financial statements?

Cyber security

There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place.

A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation.

For 2022/23 audits, auditors are advised to consider risks related to cyber security at audited bodies. However, the revised ISA (UK) 315 includes enhanced requirements for auditors to understand a body's use of IT in its business, the related risks and the system of internal control addressing such risks. The Auditor General and Accounts Commission consider that meeting these additional requirements is likely to be sufficient consideration of cyber security in 2022/23.



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Ayrshire College

Internal Audit Plan
2023/24

+ May 2023





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Background

Wylie Bisset LLP were appointed as Internal Auditors by the College with effect from 1 August 2022 until 31 July 2024 with the option to extend the contract for a further year.

Internal Audit

The prime responsibility of the Internal Audit Service (IAS) is to provide the Audit Committee, the Principal and Senior Management at the College with an objective assessment of the adequacy and effectiveness of management's internal control systems.

The IAS objectively examines, evaluates and reports on the adequacy of internal control thus contributing to the economic, efficient and effective use of resources and to the reduction of the potential risks faced by the College. Also, the operation and conduct of the IAS must comply with the guidelines set down by the Institute of Internal Auditors, the Public Sector Internal Audit Standards and any guidelines issued by the Scottish Funding Council.

Terms of Reference – Internal Audit

The provision of the IAS by Wylie Bisset LLP is covered by the letter of engagement dated 16 August 2022.

Preparation of Internal Audit Plan 2023/24

This Plan was developed following discussions with the Vice Principal : Finance.

Formal Approval

The original Audit Needs Assessment was presented to the Audit Committee for approval on 13 September 2022. This Plan covers the period 2023/24 and will be presented to the Audit Committee for approval on 6 June 2023.



Operational Plan

2023/24

Audit area	High level indicative summary scope	Total number of days
<p>Overall Financial Controls</p>	<p>The purpose of this assignment is to perform a high-level review of the key financial controls in place at the College, to provide assurance that key financial controls are suitably designed and operating effectively. This review will include a review of processes relating to purchasing, income, cash and banking, payroll and fixed assets.</p> <p>Our objectives for this review are to ensure that:</p> <ul style="list-style-type: none"> ➤ Efficient and effective procedures and controls are in place for key finance processes. ➤ Adequate segregation of duties are in place. ➤ There is adequate management oversight of finance processes. 	<p>4</p>
<p>Estates Management</p>	<p>The purpose of this assignment is to review the strategic and operational arrangements in place in respect of Estates management at the College. We will also review the maintenance of the assets, the safety of the Estates and the processes to ensure compliance with safety legislation.</p> <p>Our objectives for this review are to ensure that:</p> <ul style="list-style-type: none"> ➤ The College's Asset Management Strategy supports the College objectives. ➤ The College has appropriate arrangements in place to ensure that its Estates are managed effectively. ➤ There are robust procedures in place for ongoing maintenance and repair within the College. ➤ Estates planning takes due consideration of the College's future plans for the curriculum. ➤ The College is meeting its statutory obligations in relation to Estates Management. 	<p>6</p>



Audit area	High level indicative summary scope	Total number of days
IT Security	<p>We will undertake a review of the cyber security arrangements in place to ensure that there are appropriate controls in place to mitigate the loss of business-critical information due to a cyber-attack or failure of key systems/suppliers.</p> <p>We will test these arrangements against the National Cyber Security Centre's (NCSC) 10 steps to Cyber Security guidance.</p> <p>Our objectives for this review are to ensure that:</p> <ul style="list-style-type: none"> ➤ There is an appropriate risk-based approach to securing data and systems which has been adopted. ➤ There is appropriate cyber-awareness training for College staff that has been mandated. ➤ The architecture and configuration of key College systems is easily maintained and updated to adapt effectively to emerging cyber threats. ➤ There are appropriate solutions in place to control access to the College's information systems. ➤ There are appropriate solutions in place to protect College data from unauthorised access, modification, and deletion. ➤ The College systems are appropriately patched to minimise the risk of vulnerabilities being successfully exploited in an attack. ➤ There are appropriate processes and procedures in place to respond to security incidents that will help prevent further damage. ➤ There are appropriate processes in place for vetting suppliers and assessing the adequacy of their cyber security controls. ➤ There is an appropriate understanding of all assets that are part of the College's IT network and environment. ➤ The College systems are appropriately monitored with information logged and actively analysed. 	5
Student Retention	<p>The purpose of this assignment is to review the levels of student retention at the College. We will assess the processes in place at the College to highlight problem areas and where retention is low. We will also assess the steps taken by the College to address areas of poor student retention.</p> <p>Our objectives for this review are to ensure that:</p> <ul style="list-style-type: none"> ➤ The responsibilities for student retention are clearly defined throughout the College. ➤ The College has robust quality data for quality monitoring and student retention which is reported on a termly basis. ➤ The College actively monitors its student retention in a clear and defined manner. ➤ The College has plans in place to address areas of poor retention in a timely manner. ➤ Where poor levels of retention are highlighted, the College's procedures have been adhered to and are fit for purpose. 	5



Audit area	High level indicative summary scope	Total number of days
Budgeting and Monitoring	<p>This review will consider the budget setting process to ensure that this is robust with input from all areas of the College. We shall consider whether the arrangements for budget monitoring are fit for purpose and being adhered to by staff. We will also review the approval process of the budget and the in-year monitoring arrangements to ensure that any variations are considered and approved.</p> <p>Our objectives for this review are to ensure that:</p> <ul style="list-style-type: none"> ➤ The College has comprehensive policies and procedures for the budget setting and monitoring process which are flexible and can react to any unforeseen risk factors. ➤ The budget is set in a controlled manner and is based on justifiable assumptions, with reforecasts and any in year changes being subject to the same controls. ➤ The budget setting process is effectively linked to the operational planning process. ➤ There is appropriate control of the budgetary processes within the College, with an appropriate member of management having ultimate responsibility for the process to ensure that budgets are prepared in a timely and accurate manner. ➤ Budget holders are adequately trained and receive information regarding their budgets in a timely manner. ➤ Deviations from budgets are identified and investigated with remedial action taken at an early stage. ➤ The Board/ Senior Management receive sufficient reporting of performance against budget and against plans throughout the year to enable informed decision making. 	6



Audit area	High level indicative summary scope	Total number of days
EMA	Mandatory review of the Education Maintenance Allowance Return.	4
SSF	Mandatory review of the Student Support Funds Return.	4
Credits	Mandatory review of the Credits Return.	6
Follow Up Review	<p>The purpose of this ongoing review is to assess whether the College has appropriately implemented the internal audit recommendations made in 2022/23 and earlier years. Our review will consider all outstanding recommendations to provide the Audit Committee with independent assurance that we are satisfied that these recommendations have been fully implemented by the College and can therefore be removed from the rolling audit action plan.</p> <p>Our objective for this review is to ensure that:</p> <ul style="list-style-type: none"> ➤ The College has appropriately implemented any outstanding internal audit recommendations made in prior years. 	4



Audit area	High level indicative summary scope	Total number of days
Corporate Governance	<p>The purpose of this assignment is to ensure that the College has appropriate governance arrangements in place and that these have been embedded throughout the whole College. This review will look to provide assurance that the College's Corporate Governance arrangements are appropriate and represent good practice.</p> <p>Our objectives for this review are to ensure that:</p> <ul style="list-style-type: none"> ➤ Board and Committee terms of reference are clear and not overlapping. ➤ Board and Committees have a programme of work in accordance with their terms of reference that allows them to make an effective and timely contribution. ➤ Members are provided with sufficient, high quality management information in their areas of responsibility. ➤ Board and Committees are appropriately attended, and members are sufficiently engaged. ➤ The Board and Committees have effectively assessed their performance and the balance of skills required within the Board and Committees. 	5

Assignment Plans

A detailed assignment plan will be prepared for each audit undertaken, setting out the scope and objectives of the work, allocating resources and establishing target dates for the completion of the work. Each assignment plan will be agreed and signed off by an appropriate sponsor from the College.

Key Dates

Phase	Name	No. of audit days	Key College personnel	Provisional start date for visit	Provisional date of issue of draft report	Provisional date for reporting to Audit Committee
1	Budgeting and Monitoring	6	Tbc	14 August 2023	1 September 2023	Tbc
2	Estates Management	6	Tbc	29 January 2024	16 February 2024	Tbc
	Student Retention	5	Tbc			
3	Overall Financial Controls	4	Tbc	29 April 2024	17 May 2024	Tbc
	IT Security	5	Tbc			
	Follow Up	4	Tbc			
	Corporate Governance	5	Tbc			



Key Dates

Phase	Name	No. of audit days	Key College personnel	Provisional start date for visit	Provisional date of issue of draft report	Provisional date for reporting to Audit Committee
4	Credits	14	Tbc	September 2024	September 2024	Tbc
	SSF					
	EMA					



Appendices

- A – Summary of Internal Audit Input
- B – Grading Structure
- C – Key Performance Indicators
- D – Training Topics

A – Summary of Internal Audit Input



1 August 2022 to 31 July 2025		Operating Plan (No. Of days)		
System	Audit Area	2022/23	2023/24	2024/25
Financial Systems	Overall Financial Controls	6	4	4
	Budgeting and Monitoring		6	
Non-Financial Systems	IT Security		5	
	Business Continuity & Disaster Recovery			6
Governance	Corporate Governance		5	
	Risk Management	5		
	Strategic Planning			5
Student	Student Recruitment			6
	Safeguarding and Child Protection	5		
	Student Enrolment Procedures	5		
	Student Retention		5	
People	Human Resources			5
Sustainability	Sustainability & Carbon Management			5
	Fraud Awareness	5		
	Estates Management		6	
	c/f	26	31	31

A – Summary of Internal Audit Input



1 August 2022 to 31 July 2025		Operating Plan (No. Of days)		
System	Audit Area	2022/23	2023/24	2024/25
	b/f	26	31	31
Mandatory	Credits Audit	6	6	6
	SSF Audit	4	4	4
	EMA Audit	4	4	4
Required	Follow Up Review	4	4	4
	Audit Management	6	6	6
	Total Days	<u>50</u>	<u>55</u>	<u>55</u>



For each area of review, we assign a grading in accordance with the following classification:

Assurance	Classification
Strong	Controls satisfactory, no major weaknesses found, some minor recommendations identified
Substantial	Controls largely satisfactory although some weaknesses identified, recommendations for improvement made
Weak	Controls unsatisfactory and major systems weaknesses identified that require to be addressed immediately
No	No or very limited controls in place leaving the system open to significant error or abuse, recommendations made require to be implemented immediately

For each recommendation, we make we assign a grading either as High, Medium or Low priority depending upon the degree of risk assessed as outlined below:

Grading	Risk	Classification
High	High Risk	Major weakness that we consider needs to be brought to the attention of the Audit Committee and addressed by Senior Management of the College as a matter of urgency
Medium	Medium Risk	Significant issue or weakness which should be addressed by the College as soon as possible
Low	Low Risk	Minor issue or weakness reported where management may wish to consider our recommendation

For each area of review, we assign a grading in accordance with the following classification:

Performance Indicator	Target
Internal audit days completed in line with agreed timetable and days allocation	100%
Draft scopes provided no later than 10 working days before the internal audit start date and final scopes no later than 5 working days before each start date	100%
Draft reports issued within 10 working days of exit meeting	100%
Management provide responses to draft reports within 15 working days of receipt of draft reports	100%
Final reports issued within 5 working days of receipt of management responses	100%
Recommendations accepted by management	100%
Draft annual internal audit report to be provided by 31 December each year	100%
Attendance at Audit Committee meetings by a senior member of staff	100%
Suitably experienced staff used on all assignments	100%



As a firm we offer a wide range of training topics to our clients and we have listed below some of the topics which we would be able to offer Ayrshire College.

Topic	Summary
Risk Management	This can cover risk awareness, assessment of risks, responsibilities for monitoring risks, risk appetite and the scoring of risks. This is usually done as a workshop to ensure buy-in from management and committee members to the risk management process.
Role of the Board	This would cover the roles and responsibilities of Board members, including the Chair. This has been particularly useful when new Board members have been appointed and allows members to obtain some knowledge on what the expectation of a Board member is and what they should be looking out for.
Role of Internal Audit	We would provide a short session on what the internal audit function should be delivering to the College and the added value which we would bring.
Finance for Non-Financials	This is useful for committee members who do not have a finance background and covers areas such as the management accounts, budget reporting and the statutory accounts.
Fraud Awareness	We would cover the importance of a having a strong control environment and areas to be aware of in relation to fraud. We would discuss some real-life examples of where we have identified or been asked to investigate allegations of fraud and the results of these investigations.



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Audit & Risk Committee

06/06/2023

Strategic Objective Reference:	Choose an item.	Choose an item.
	Choose an item.	Choose an item.
	SO5 - high performing college underpinned by excellence in stewardship and governance	Choose an item.
	Choose an item.	
Subject:	Internal Audit Rolling Internal Audit Action Plan as at 26 May 2023	
Purpose:	To provide Members with an update on the Rolling Internal Audit Action Plan as at 26 May 2023	
Action Required:	To Note	
Appendices:	No	

1. Summary of Key Points (

This paper details the internal audit recommendations due for completion within the period and the status of the actions taken by management. During the period, three internal audit recommendations were due to be completed. All three recommendations are complete.

2. Background

The rolling Internal Audit Action Plan is a standing agenda item for the Senior Leadership Team (SLT). The rolling action plan is updated on an exceptions basis for actions approved by the Audit Committee which are now beyond their agreed completion dates. It is reviewed on a monthly basis by the College’s SLT and presented to each meeting of the Audit Committee.

3. Assessment

The Rolling Internal Audit Action Plan covers any audit recommendations made by our current internal auditors, once the audit reports and proposed management responses have been approved by the Audit Committee. The Internal Audit Plan for 2022-23 was approved by the Audit and Risk Committee on 13 September 2022.

A regular report is presented to members listing all outstanding recommendations from the internal audits that were due to have been completed in the period under consideration. The report shows if the recommendation has been actioned or is still remaining.

Members are asked to note that there were no audit recommendations due for completion in the period under consideration.

4. Proposals and Recommendations

No further proposals are included within this paper

5. Risks

An effective and challenging Internal Audit service is a key element in the management of risk within the College.

6. Resource Implications

No further resource implications require to be noted.

7. Equality and Diversity Impact Assessment

An impact assessment is not applicable given the subject of this paper.

8. Sustainability

The College's internal audit function is targeted at key areas for the College. The function is directed to identify areas for improvement and ensure effective delivery of the College's strategic objectives. This includes being a sustainable organisation.

9. Consultation/Input

No formal consultation is required given the subject of this paper.

James Thomson
Interim Vice Principal – Finance

30 May 2023