

**BOARD OF MANAGEMENT**  
**ACTION TRACKER**

**COMMITTEE:**      **Audit Committee**

DATE RAISED	ACTION No	ACTION	DUE DATE	OWNER	STATUS*	COMMENTS
19.09.17	1	Consideration of cross representation between Audit Committee and BRIC	June 2018	A Walker	In progress	Matter raised with Board Chair at Board Meeting on 28 September 2017.  Recommendation to the Board Meeting on 21.06.18 within the Review of the Revised Committee Structure Paper.
05.12.17	2	Raise with SFC the Committee's concerns over the SFC instructed rebadging of Net Depreciation in the 2016/17 Financial Statements as "Cash Budget for Government Directed Priorities"	March 2018	A Walker	Complete	Raised with the Interim CEO of the Scottish Funding Council at the Board Strategy Day on 20 February 2018.
20.03.18	3	Progress report on the on the work being undertaken by the College in response to the recommendations contained in the internal audit report on Business Continuity Planning	September 2018	M Breen	In progress	
20.03.18	4	The Committee to monitor and receive progress reports on the cascading of operational risk	September 2018	M Breen	Not started yet	

**SCHEDULE OF BOARD AND COMMITTEE MEETINGS 2017-2018**

		registers down through the management structure of the College					
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*\* Not Started / In Progress / Completed*



# Ayrshire College

## Internal Audit Report 2017/18

### Key Financial Systems – Payroll

March 2018



Scott-Moncrieff  
business advisers and accountants



# Ayrshire College

## Internal Audit Report 2017/18

### Key Financial Systems

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<i>Audit Sponsor</i>	<i>Key Contacts</i>	<i>Audit team</i>
<i>Michael Breen, Vice Principal – Finance and Skills</i>	<i>James Thomson, Director of Finance and Student Funding Liz Walker, Head of Financial Services</i>	<i>Elizabeth Young, Chief Audit Executive Claire Stevenson, Audit Manager Andrew Diffin, Internal Auditor</i>

# Executive Summary

## Conclusion

Ayrshire College has well-designed, effective processes and controls in place over the payroll. Our review identified, however, one moderate risk area and two low risk areas for improvement where the College could further enhance its existing processes.

## Background and scope

The boards of all public bodies need assurance that assets and other resources are used effectively and efficiently and that financial affairs are well managed.

Internal financial controls are checks and procedures that help public bodies:

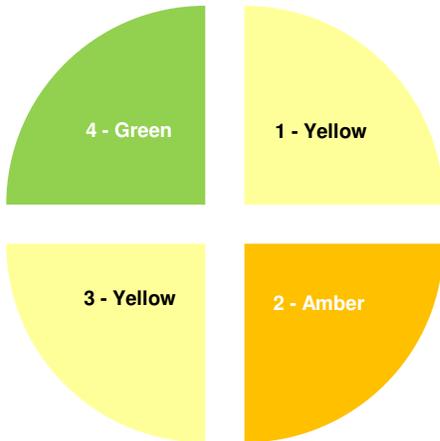
- meet their legal duties to safeguard public assets;
- administer public funding in a way that identifies and manages risk; and
- ensure the quality of financial reporting, by keeping adequate accounting records and preparing timely and relevant financial information.

Internal financial controls reduce, but don't eliminate, the risk of loss through theft and fraud, bad decisions, human error, control breaches, management override of controls and unforeseeable circumstances.

In accordance with the 2017/18 Internal Audit Plan, we have performed a review of key financial systems, focusing on payroll and expenses

# Control assessment

1. Payroll payments are made to valid employees only, at the correct and authorised rate

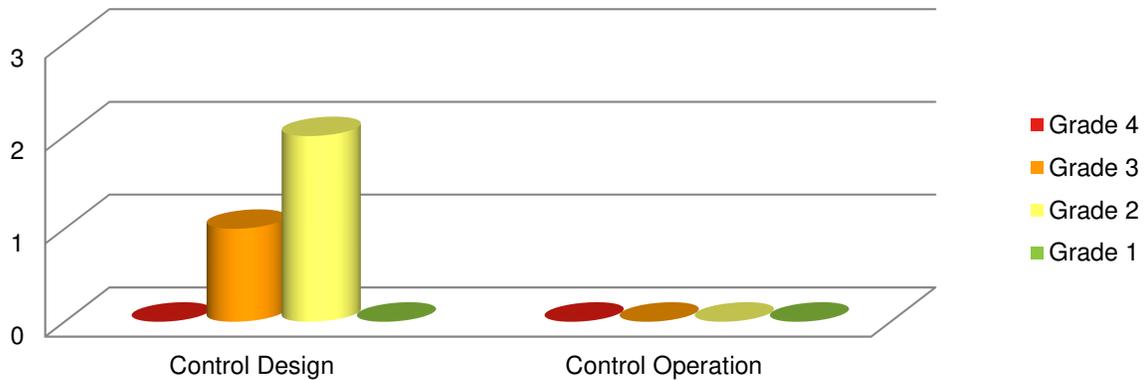


2. Changes to payroll standing data are authorised and processed on a timely basis

3. Payroll data is held securely and authorised access is prevented

4. Only valid travel and subsistence claims are paid at the correct and authorised rate

# Improvement actions by type and priority



Three improvement actions have been identified from this review, all of which relate to the design of the controls in place. See Appendix A for definitions of colour coding.

# Key findings

## Good practice

We have gained assurance that the College's procedures reflect good practice in a number of areas:

- The College's implementation of the iTrent payroll software automatically performs pay run calculations and generates the pay run BACS file, with no requirement for manual calculation. This reduces the risk of human error and manipulation of data within the pay run process.
- Transfers of information between the payroll and financial ledger are performed by file upload and are verified as accurate by regular reconciliation.
- The College has implemented its most commonly used payroll processes as workflows within the iTrent software. These are governed by automatically enforced authorisation protocols, with an audit trail maintained by the software. Where processes have not yet been implemented within the system, paper audit trails are maintained instead.
- Access to the payroll system is controlled by uniquely assigned user accounts. Accounts are linked to user roles with defined sets of permissions. We confirmed these were appropriate to staff members' responsibilities.
- Expenses claims are processed in line with a clearly defined policy and structure of authorisation and supported by appropriate evidence.

## Areas for improvement

We have identified three areas for improvement that if addressed would strengthen the College's control framework. These include:

- Introducing secondary authorisation, or retrospective verification, of changes to employee bank details. This will reduce the risk of fraudulent redirection of employee payments.
- Implementing exception reporting designed to identify inappropriate use of high level system administrator access, reducing the risk that senior staff could override controls without detection.
- Introducing the retention of evidence of the monthly review of the exception reports that summarise changes made to payroll standing data to provide a clear audit trail.

These are further discussed in the Management Action Plan below.

## Impact on risk register

The College corporate risk register (as at March 2018) included the following risks relevant to this review:

- BRIC5 (FIN): Non-compliance with statutory obligations due to the lack of adequate monitoring arrangements resulting in financial penalties and reputational damage (residual risk score - 4)

We have identified a small number of opportunities to reduce the likelihood of non-compliance with the monitoring arrangements the College has implemented, in particular where a risk of management override exists.

# Acknowledgements

We would like to thank all staff consulted during this review for their assistance and co-operation.

# Management Action Plan

Control Objective 1: Payroll payments are made to valid employees only, at the correct and authorised rate.



## 1.1 Change Reports

The HR team runs an exception report summarising changes made to payroll standing data on a monthly basis and reviews it for unusual or unexpected activity. HR also sends a summary of the report to the Payroll team via email to enable them to verify the changes processed throughout the pay period. No records of these checks are retained therefore there is no evidence to verify that the reviews have been performed.

### Risk

The review of the change report is the principal detective control over amendments to the payroll database however there is no requirement to retain evidence to prove that this control has been performed. This increases the risk that the control may not be consistently performed on a monthly basis.

### Recommendation

Both the HR and Payroll teams should ensure evidence of their review of change reports is retained. To ensure this control prevents unauthorised or inaccurate changes to data, the timing of the reports should be aligned to the pay run dates, such that changes are reviewed after the payroll cut-off date, but before the BACS run is processed.

#### Management Action

Grade 2  
(Design)

Agreed.

Reports will be signed and dated and reviewed and checked by HR and Finance staff.

**Action owner:** Head of Financial Services

**Due date:** 31 May 2018

## Control Objective 2: Changes to payroll standing data (including addition of starters, removal of leavers and processing of salary changes) are authorised and processed on a timely basis.



### 2.1 Employee Bank Details

Employee bank details are initially entered into the payroll database for new employees by the Payroll team. Where these need to be subsequently updated, the update will either be entered by the employee using the Employee Self Service system integrated into the iTrent software, or updated by Payroll.

The initial entry or updating of bank details is not subject to any secondary authorisation or review. Within the payroll team, a single individual can make changes to the bank details of an employee and those changes will take immediate effect. To reduce the risk that unauthorised changes go undetected, the Employee Self Service system generates a notification email to the affected employee when bank details are updated, however this does not occur where changes are made by the payroll team.

#### Risk

There is a risk that unauthorised changes could be made to employee bank details, resulting in the fraudulent redirection of employee payments.

#### Recommendation

The College should either amend the operation of the iTrent system such that the initial entry or updating of bank details requires confirmation by a second individual, or introduce exception reporting designed to identify any unexpected changes to bank details in advance of the processing of the pay run.

#### Management Action

Grade 3  
(Design)

Agreed.

All amendments to bank arrears will be signed off by two payroll team members and this is now in place. The payroll team will introduce an exception report to identify any changes on a monthly basis. This exception report will be checked and reviewed by another finance team leader.

An exception report is available until a manual reconciliation will be put in place between the current and proceeding month's data and signed off by another finance team leader.

**Action owner:** Head of Financial Services

**Due date:** Complete

## Control Objective 3: Payroll data is held securely and unauthorised access is prevented.

Yellow

### 3.1 iTrent System Administrator Access

The ability to access various functions of the iTrent system is restricted based upon user identification ID and role. As the College has recently implemented the iTrent system, no process has yet been put in place to regularly review the level of access held by various users.

Both the Head of Financial Services and the Payroll Team Leader hold wide ranging administrator level access to the system, which in principle allows these individuals to make unilateral changes to the iTrent database without secondary approval.

#### Risk

There is a risk that administrator access could be used to bypass segregation of duties and authorisation controls.

#### Recommendation

The College should consider if administrator user privileges are restricted as far as is practical. As it will always be necessary to maintain at least one user with system administrator access, the College should introduce exception reporting to identify any changes made to Payroll data using administrator access. This should be reviewed for unexpected activity in advance of the pay run as part of the sign off and authorisation process.

Once the iTrent system is fully implemented, the College should consider periodically reviewing the levels of access held by all users to ensure that they remain appropriate and consistent with levels of responsibility.

#### Management Action

Grade 2  
(Design)

Agreed.

The College will introduce exception reporting so any changes made using administrator access are flagged and reviewed as part of the monthly payroll run. This payroll specific risk will be shared with other directorates who have administrative access rights. However, the locked contract process ensure that no changes can impact payroll after checking reports have been run and the BACS file is sent.

Agreed. Levels of access will be reviewed on a quarterly basis.

**Action owner:** Head of Financial Services

**Due date:** 30 April 2018

## Control Objective 4: Only valid travel and subsistence expenses are paid at the correct and authorised rate.



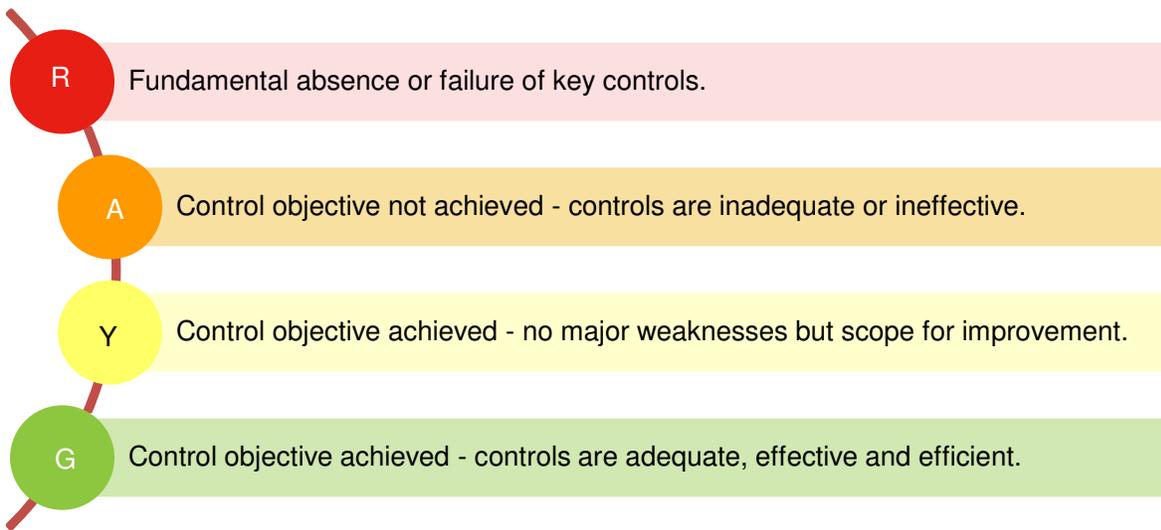
### **No reportable issues identified**

The College has an approved policy setting out the circumstances under which expenses can be claimed. Expenses must be evidenced, and approved by line managers prior to their submission to payroll.

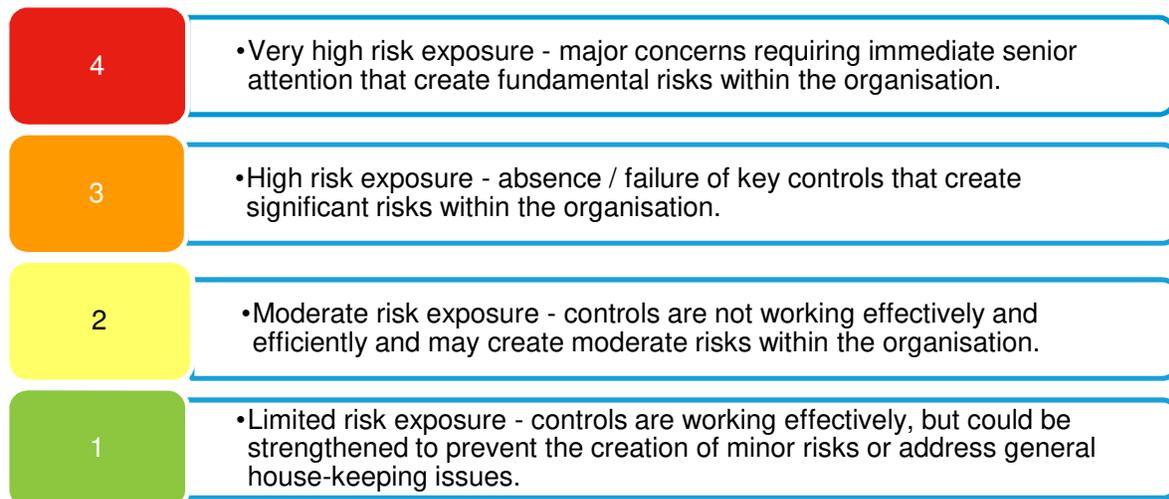
We examined a sample of twenty four payments made to College staff and two payments made to Board members in respect of expenses. In all sampled cases claims had been submitted according to the College's policy and process, with evidence of authorisation retained. Where applicable, all sampled expenses payments agreed to adequate supporting documentation.

# Appendix A – Definitions

## Control assessments



## Management action grades



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# Ayrshire College Internal Audit Report 2017/18 SFC Returns

April 2018



**Scott-Moncrieff**  
business advisers and accountants

# Ayrshire College

## Internal Audit Report 2017/18

### SFC Returns

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<i>Audit Sponsor</i>	<i>Key Contacts</i>	<i>Audit team</i>
<i>Michael Breen, Vice Principal – Finance and College Systems</i>	<i>James Thomson, Director of Finance Liz Walker, Head of Financial Services</i>	<i>Elizabeth Young, Chief Audit Executive Claire Stevenson, Audit Manager Andrew Diffin, Internal Auditor</i>

# Executive Summary

## Conclusion

Ayrshire College has well designed controls in place to ensure the accurate preparation and timely submission of SFC financial returns. Staff prepare the returns using a monthly checklist that identifies a responsible staff member for each task and a deadline for completion. Management reviews and approves the returns before their submission. Our review confirmed these processes are operating effectively.

## Background and scope

Incorporated colleges are required by the Scottish Government to provide updates throughout the year on the current position of their resource budget. The two most important returns required are:

- Resource Returns (setting out revenue, capital income and expenditure); and
- Monthly cash drawdown requests.

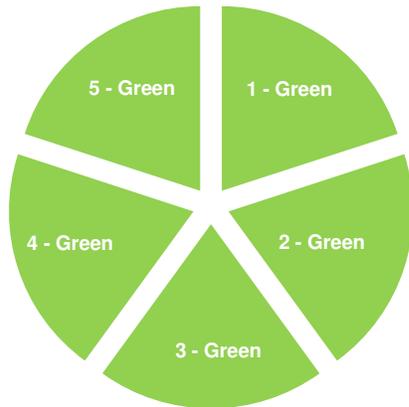
The resource returns should be drawn from the College's budget and management accounts. This information should be capable of reconciliation to the college's management accounts and budgets, and be consistent with the college's cash flow returns. The returns are made to the Scottish Funding Council (SFC) who then consolidate these for the Scottish Government.

As part of the internal audit plan for AY 2017/18 we have reviewed the resource returns submitted to the SFC to provide assurance that the process of preparing the returns based on the College's management accounts is robust. We also reviewed the College's monthly cash flow drawdown requests.

This included gaining assurance that there is an appropriate method in place to extract figures from the College's management accounts, reconciliations are performed between the resource return and the management accounts, the EMT/ Business, Resources and Infrastructure Committee (BRIC) have sufficient oversight of the returns, suitable cash drawn down management is in place and the College submits returns in line with SFC guidelines.

We have not performed an audit of the figures used in the return.

## Control assessment



- 1. The method of extracting figures from the College's management accounts to incorporate into SFC's resource return is clear and accurate to ensure the completeness of the return submitted
- 2. Reconciliations are undertaken to ensure the figures in SFC's return reconcile to the College's management accounts
- 3. There is adequate reporting on the resource returns to the EMT and BRIC and any issues with the return are highlighted
- 4. The College's cash drawdown requests to SFC are made appropriately in the context of need and prudent cash management
- 5. The College Finance team engage with SFC regarding the resource return (including adhering to SFC deadlines)

We confirmed that the College's processes are robust. We did not identify any areas for improvement during our review.

# Key findings

## Good practice

We have gained assurance that Ayrshire College's procedures reflect good practice in a number of areas:

- The Finance Team uses a monthly checklist that includes preparation of the resource return. The checklist outlines the individual(s) responsible for each task and the timescales for completion to help ensure the SFC requirements and deadlines are met.
- The College uses a preconfigured report to extract the information required for the resource return from the financial ledger, helping to ensure consistency in the preparation of the return and adherence to SFC guidelines. This process also reduces the scope for potential error within the return by minimising the level of manual manipulation required to the data.
- The Head of Financial Services and the Director of Finance and Student Funding review the content of each resource return to confirm its completeness and accuracy, prior to submission to the SFC.
- The Financial Accountant maintains a rolling cashflow forecast that summarises the College's position on both an academic and financial year basis. The forecast is informed by the College's budget and through engagement with staff on expected profile of income and expenditure throughout the year. Management reviews the cashflow on a monthly basis, helping to ensure that any cashflow issues are identified and addressed promptly.
- Staff use the cashflow forecast to identify the required cash draw down from the SFC and populate the drawdown request. Management reviews and approves the request prior to submission to confirm it is appropriate.

## Impact on risk register

The Ayrshire College corporate risk register (dated March 2018) included the following risks relevant to this review:

- BRIC 5 – Non-compliance with statutory obligations due to the lack of adequate monitoring arrangements resulting in financial penalties and reputational damage.

Our review has not identified any issues that impact on this risk. We have also not identified any additional risks during our review, arising from control weaknesses.

## Acknowledgements

We would like to thank all staff consulted during this review for their assistance and co-operation.

# Management Action Plan

**Control Objective 1: The method of extracting figures from the College's management accounts to incorporate into the SFC resource return is clear and accurate to ensure the completeness of the return submitted**



## No weaknesses identified

The College uses a monthly checklist to prepare the management accounts that identifies the individual(s) responsible for each action and the deadlines for completion. Staff have included the preparation, review and submission of the SFC resource return within the checklist to ensure the return is ready for submission by the SFC deadlines. We confirmed through discussions that staff were aware of their responsibilities and the process outlined by staff was in line with our expectations, based on the checklist.

Staff extract the figures for the return directly from the financial ledger system using a predefined report. The report provides the account codes required for the resource return without the need for significant manual adjustment or manipulation, reducing the scope for fraud or error. The Financial Accountant then inserts the figures into the return pro forma provided by the SFC.

The Financial Accountant discusses the content of the resource return at monthly meetings with the Head of Financial Services and the Director of Finance and Student Funding. The Director and Head review the return for accuracy and completeness and provide their approval during the meeting, after which the Director submits the return to the SFC on a timely basis.

We reviewed a sample of two quarterly returns and confirmed the return was produced in line with the agreed process, including that the returns were reviewed at a monthly meeting and subsequently submitted by the Director.

**Control Objective 2: Reconciliations are undertaken to ensure the figures in the SFC return reconcile to the College's management accounts**



## No weaknesses identified

Staff extract the figures for the resource return directly from the financial ledger system using a pre-defined report. Staff run a separate report that extracts the data for the management accounts. The accounts are therefore not manipulated to produce the resource return and staff do not perform a reconciliation between the return and the management accounts. Instead the Financial Accountant reconciles the completed resource return pro forma to the financial ledger data upon which the return and the management accounts are based to provide assurance over the completeness of the figures used.

We reviewed a sample of two resource returns and confirmed in each case that the returns were reconciled and agreed to the financial ledger system, with no reconciling items identified.

## Control Objective 3: There is adequate reporting on the resource returns to the EMT and BRIC and any issues with the return are highlighted



### No weaknesses identified

Staff provide regular management accounts to the EMT and to the Business, Resources and Infrastructure Committee (BRIC) and provide reports on the resource return on an exception-only basis. We understand this is because the return and the accounts largely contain the same information across slightly different time periods; staff do not therefore believe there is value in providing both reports to the same forums. We believe this is reasonable given the detailed review of the resource return by the Head of Finance and the Director of Finance and Student Funding, and the potential for the Director to escalate any issues to the EMT if required.

In the course of our audit work, we identified one instance in the past year where an issue relating to the resource return was escalated to BRIC. The issue related to the timing of funding drawdowns. We confirmed the paper contained sufficient detail on the issue to facilitate decision making.

We did not identify any other issues that appeared to warrant escalation to the EMT or BRIC during the course of our audit work.

## Control Objective 4: The College's cash draw down requests to SFC are made appropriately in the context of need and prudent cash management



### No weaknesses identified

The Financial Accountant maintains a rolling cashflow projection to the end of the academic and financial years respectively. The Financial Accountant liaises with various departments within the College to obtain appropriate oversight of all anticipated income and forecast expenditure in order to ensure that cash flow forecasts are accurate and realistic. The Officer updates the projection on at least a monthly basis to ensure it remains up-to-date and complete.

The Financial Accountant discusses the projection during a monthly meeting with the Head of Financial Services and the Director of Finance and Student Funding. During the meeting, the teams review the forecast and identifies any upcoming cashflow issues.

Cash draw down requests are based upon the College's cashflow projections. The Financial Accountant discusses and agrees each request with the Head of Financial Services and the Director of Finance and Student Funding during the same meeting. The Director then submits the request to the SFC to signify approval.

## Control Objective 5: The College Finance Team engages appropriately with the SFC regarding the resource return, including adhering to SFC deadlines

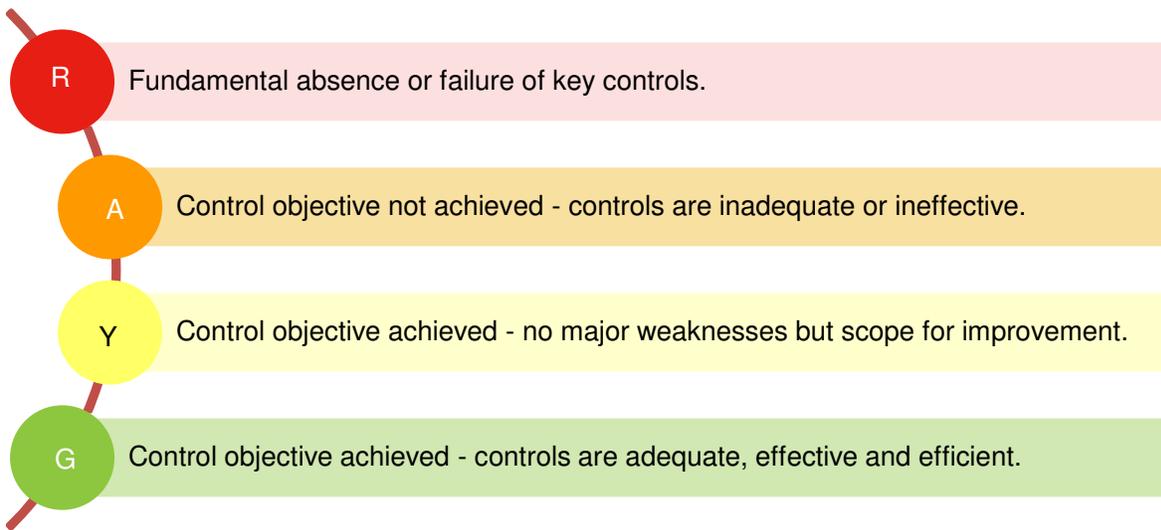


### **No weaknesses identified**

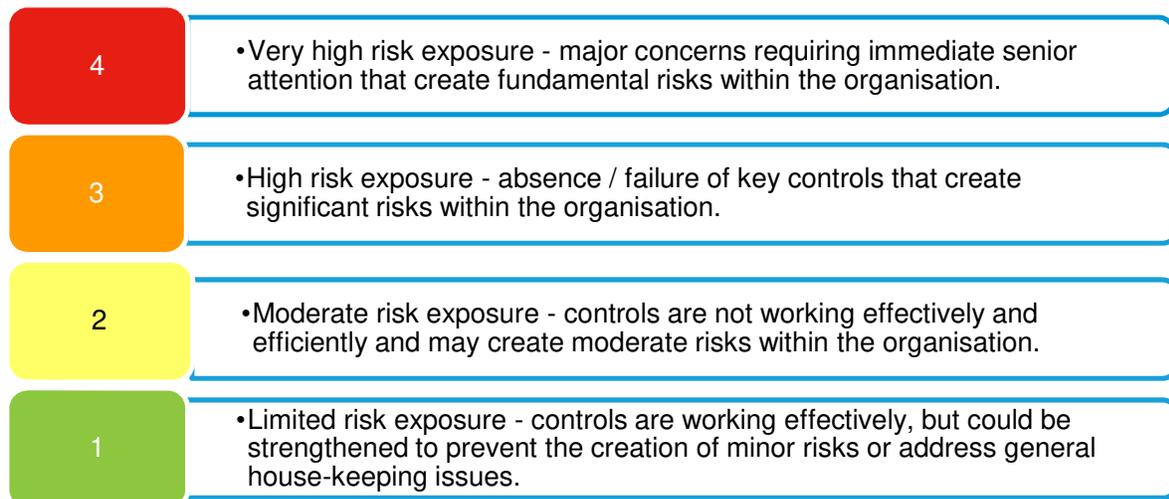
The SFC provides colleges with a pro forma for the resource return that should be completed and returned by identified deadlines. We reviewed a sample of returns and confirmed they were completed using the pro forma, and submitted by the deadlines set. We also confirmed that where issues arose with the resource return, the College engaged appropriately with the SFC via email to resolve those issues prior to submission.

# Appendix A – Definitions

## Control assessments



## Management action grades



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**Ayrshire College**  
**Internal Audit Report 2017/18**  
**Student Services (Learning Resources and Technologies)**

March 2018



**Scott-Moncrieff**  
business advisers and accountants



# Ayrshire College

## Internal Audit Report 2017/18

### Student Services (Learning Resources and Technologies)

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<i>Audit Sponsor</i>	<i>Key Contacts</i>	<i>Audit team</i>
<i>Helen Canning, Director – Student Services</i>	<i>Bill Lennox, Learning Resources and Technology Manager</i>	<i>Elizabeth Young, Chief Audit Executive Claire Stevenson, Audit Manager Andrew Diffin, Internal Auditor</i>

# Executive Summary

## Conclusion

The Learning Resources and Technology directorate (LR&T) has developed an eLearning Strategy to drive improvements in learning resources. The Strategy is supported by a detailed work plan that sets out specific actions to deliver the objectives set. The College also seeks regular student feedback on the technology available and communicates the action taken to rectify any issues identified.

We have identified three low risk improvements to the directorate's processes. This includes aligning the directorate's eLearning Strategy to directorate and College level strategies to ensure they are complementary.

## Background and scope

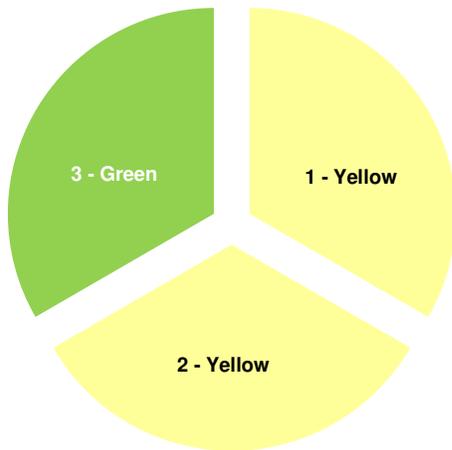
Ayrshire College's 2017-20 strategy sets out a mission to *'provide excellent learning opportunities which enable students of all ages and backgrounds to fulfil their potential'*. The College has recognised that in order to attain this, it needs to engage students flexibly and support different learning needs.

Students learn at their best when they are actively engaged in their own learning. This means that the College needs to ensure that the learning resources and technologies are sufficient and appropriate to support a positive studying experience for students. As part of this, the College has developed a virtual learning environment (Moodle).

In accordance with the 2017/18 Internal Audit Plan, we have reviewed student services focusing on the controls in place within learning resources and technology to ensure a positive student experience.

## Control assessment

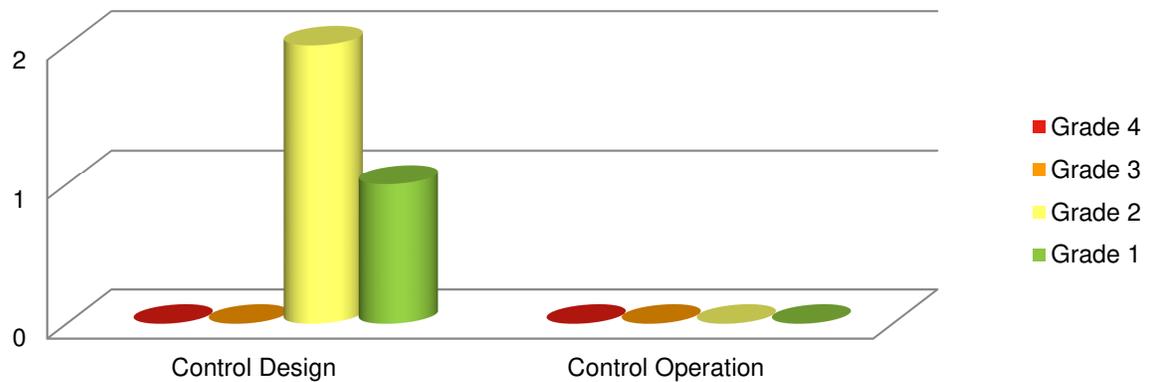
- 1. The College has a strategy / plan in place for the development of learning resources, ensuring continuous improvement across the curriculum



- 2. Both student and lecturers' usage of technology is regularly reviewed to ensure that resources in place are being utilised effectively

- 3. Regular feedback is sought from students on the learning resources and technology provided, with action being taken to address any weaknesses identified

## Improvement actions by type and priority



Three improvement actions have been identified from this review, all of which relate to the design of controls, rather than compliance with existing controls. See Appendix A for definitions of colour coding.

# Key findings

## Good practice

We have gained assurance that the College's procedures reflect good practice in a number of areas:

- The Learning Resources and Technology directorate (LR&T) has developed an eLearning Strategy that outlines the College's vision for eLearning and technology provision and contains clear objectives for delivery.
- To support the Strategy, the College has developed a workplan that staff update on an annual basis. The work plan contains the specific actions to achieve the objectives set, including action owners and timescales for implementation.
- The work plan outlines planned engagement activity with students. This includes an annual student survey and attendance at the Student Association class representative meetings. These mechanisms provide appropriate coverage of all curriculum areas and College campuses.
- Where issues and rectifying actions are identified as a result of feedback, the LR&T directorate communicates the outcome to students annually during registration and in-year through the Student Association's monthly newsletter.

## Areas for improvement

We have identified a number of areas for improvement which, if addressed, would strengthen the College's control framework. These include:

- Aligning the eLearning Strategy to directorate and College level strategies to ensure they are consistent; and
- Documenting discussions held on operational planning to improve transparency and ensure the benefits and implications of proposed actions are appropriately considered.

These are further discussed in the Management Action Plan below.

## Impact on risk register

The College corporate risk register (dated December 2017) included the following risks relevant to this review:

- LT3: There is a risk that the College does not provide a high quality learning experience due to a poor alignment of staff and other resources, resulting in reduced attainment scores for students and reputational damage (Score 9).

Our review identified that the LR&T directorate's eLearning Strategy is not demonstrably aligned to the College's Strategic Plan or to the Learning and Teaching Strategy in place for the directorate's Directorate, Student Services. This could increase the risk that the College's resources are not aligned at all levels to deliver the College's overarching aims and provide a high quality learning experience. The College should therefore implement our recommendation contained within the Management Action Plan below to ensure this risk continues to be mitigated effectively.

# Acknowledgements

We would like to thank all staff consulted during this review for their assistance and co-operation.

# Management Action Plan

Control Objective 1: The College has a strategy / plan in place for the development of learning resources, ensuring continuous improvement across the curriculum



## 1.1 Wider planning context

The LR&T directorate developed an eLearning Strategy covering the period 2016-19, which is reviewed and updated on an annual basis. The Strategy articulates the College's vision for eLearning and technology provision and contains objectives to deliver that vision.

We noted however that the Strategy doesn't clearly explain how it aligns with the aims contained within the College's Strategic Plan. The Strategy also doesn't align to the Learning and Teaching Strategy in place for the relevant directorate, Student Services.

### Risk

There is a risk that the LR&T directorate does not prioritise delivery of learning resources or activities in line with the College's strategic aims, as it does not state that these aims were considered when developing the eLearning Strategy. This could result in inefficient use of resources and have an impact on delivery of the College's overarching objectives.

### Recommendation

The LR&T directorate should outline how the eLearning Strategy contributes towards achievement of the Learning and Teaching Strategy and the College's Strategic Plan. This should include the specific objectives the Strategy will help to deliver.

This section of the Strategy should be refreshed as part of the annual review to ensure the stated links remain up-to-date and reflect any changes to the Learning and Teaching Strategy or the Strategic Plan.

### Management Action

Grade 2  
(Design)

Review Strategic and operational plans in line with the refreshed Learning and Teaching Strategy.

**Action owner:** Director of Student Services

**Due date:** 31 July 2018

## 1.2 Annual development day

The LR&T directorate develops its programme of work annually at a development day, including activities to deliver the eLearning Strategy. The team review a variety of information to inform decision-making on operational priorities, including feedback from staff and students, statistics showing use of existing resources and information on new resources the College could provide. Staff use this to produce an operational workplan outlining the activities and resources the team will deliver during the year and their draft budget.

We noted that staff do not formally document discussions held during the development day. There is therefore no record of the team's:

- Consideration of the learning resources currently in use and/or available;
- Assessment of known or anticipated user requirements;
- Expectations of the impact that implementing new resources or initiatives could have;
- Rationale behind taking particular options forward in favour of others; and
- Financial or staffing implications arising from the workplan.

### Risk

There is a risk that the LR&T directorate is unable to demonstrate it appropriately considered all relevant options for delivering the College's learning resources and their impact on the College. Staff could experience difficulties in obtaining additional budget to support delivery of new resources or face criticism from senior management, staff and/or students where they believe communicated needs have not been taken into account.

### Recommendation

The LR&T directorate should document the discussions held during the development day. This should include consideration of the learning resources in use and if available, assessment of known or anticipated user requirements; the expected impact of and rationale for approving/rejecting new resources or initiatives, and any staffing or budgetary implications arising from the workplan.

#### Management Action

LR&T will document the output from the annual development day.

**Action owner:** Learning Resources and Technology Manager

**Due date:** 30 June 2018

Grade 2  
(Design)

## 1.3 Approval of planning documents

The Learning Resources and Technology Manager is responsible for updating the eLearning Strategy and developing the operational workplan on an annual basis. The Manager then passes the documents to the Director of Student Services for approval but this approval is not formally recorded.

### Risk

There may be a perceived lack of senior oversight and endorsement of the Strategy and workplan without formal recording of the Director's approval. This could encourage further challenge from staff or students who disagree with the contents and result in reputational damage for the directorate where the appropriate approval channels do not appear to have been followed.

### Recommendation

The Director's approval of the Strategy and work plan should be recorded. This could be achieved by inserting version control information at the start of both documents.

#### Management Action

Grade 1  
(Design)

Sign off of the strategy and work plan will be recorded and version control will be implemented as the revised documents are developed

**Action owner:** Director of Student Services

**Due date:** 31 July 2018

## Control Objective 2: Both student and lecturers' usage of technology is regularly reviewed to ensure that resources in place are being utilised effectively



Green

### No reportable issues identified

The LR&T directorate monitor usage of various resources, including online resources, books and the Virtual Learning Environment Moodle. Staff provide tracking statistics to monthly team meetings. The statistics are used to gather intelligence on students' preferred methods for accessing course information and identify potential areas for development. Where further action is required, staff agree an action owner and follow up completion of the action at the next team meeting.

Staff also provide the statistics to the Director of Student Services each semester. The Director reports annually to the Learning and Teaching Committee, which includes summary statistics for the period. The report includes correlations drawn between the use of learning resources and student statistics, such as withdrawals, to illustrate the impact resources are having on the student experience.

We confirmed for a sample of three months that tracking statistics were prepared and reviewed at monthly team meetings. Where development areas were identified, we noted that appropriate actions were agreed by staff and followed up at the next team meeting. We also confirmed that reports were provided to the Director each semester and that the annual report to the Learning and Teaching Committee contained appropriate detail on learning resource usage for the period.

## Control Objective 3: Regular feedback is sought from students on the learning resources and technology provided, with action being taken to address any weaknesses identified



Green

### No reportable issues identified

The LR&T directorate undertake a regular programme of student engagement on learning resources and technology. This includes attending Student Association class representative meetings and performing an annual survey on learning resources.

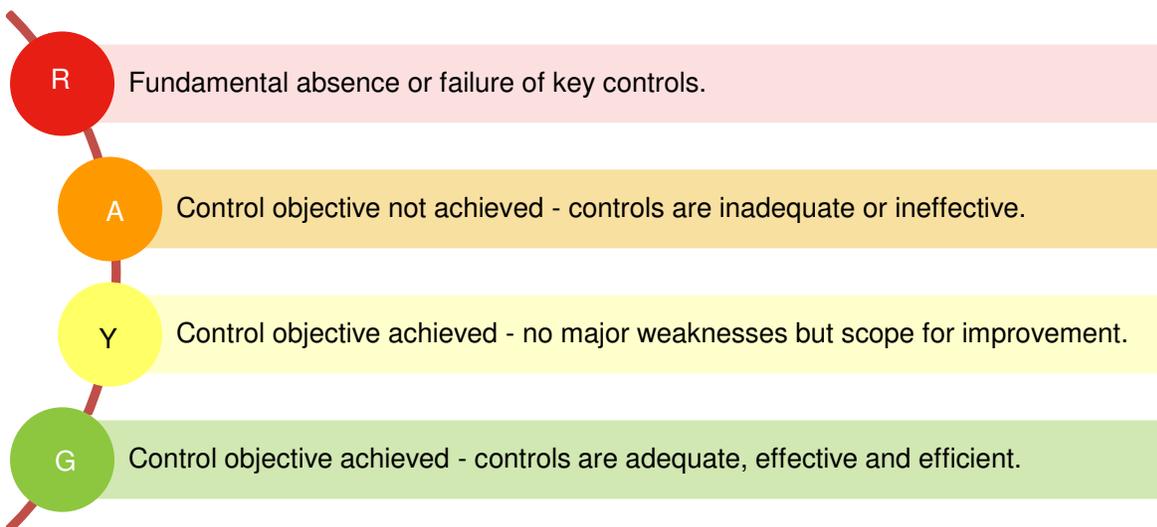
Staff feedback any issues raised through the Student Association meetings to monthly team meetings within the directorate and identify rectifying actions. We reviewed a sample of team minutes and confirmed that action owners and deadlines for implementation were agreed for each action and that actions were followed up until completion.

We also reviewed the 2016/17 student survey and confirmed that it provides appropriate coverage of the College's curriculum areas and campuses. We did note however that only 100 students out of approximately 12,000 responded to last year's survey and the results may therefore not be representative of the views of the entire student population. Staff confirmed they are aware of this issue and we understand actions are being taken to try to improve the response rate, including sending staff to survey students on-site using hand-held devices. We are therefore satisfied we do not need to raise a recommendation in this area.

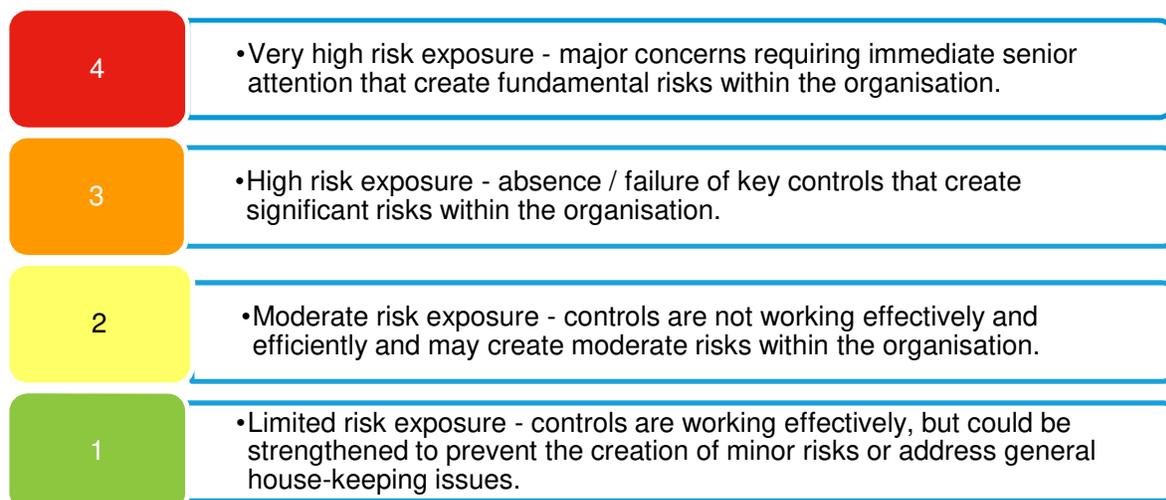
The LR&T directorate consider the results of the survey during the annual development day and identifies rectifying actions that are built into the operational workplan, where appropriate. Where action is taken in response to issues raised through either the survey or the Student's Association meetings, the LR&T directorate feed this information back to the student body through 'You said, We did' announcements provided during student registration. The Student's Association also issues a monthly a newsletter providing updates on actions taken as a result of issues raised at Class Representative meetings.

# Appendix A – Definitions

## Control assessments



## Management action grades



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# Ayrshire College

## Internal Audit Progress Report

June 2018



Scott-Moncrieff  
business advisers and accountants

# Ayrshire College

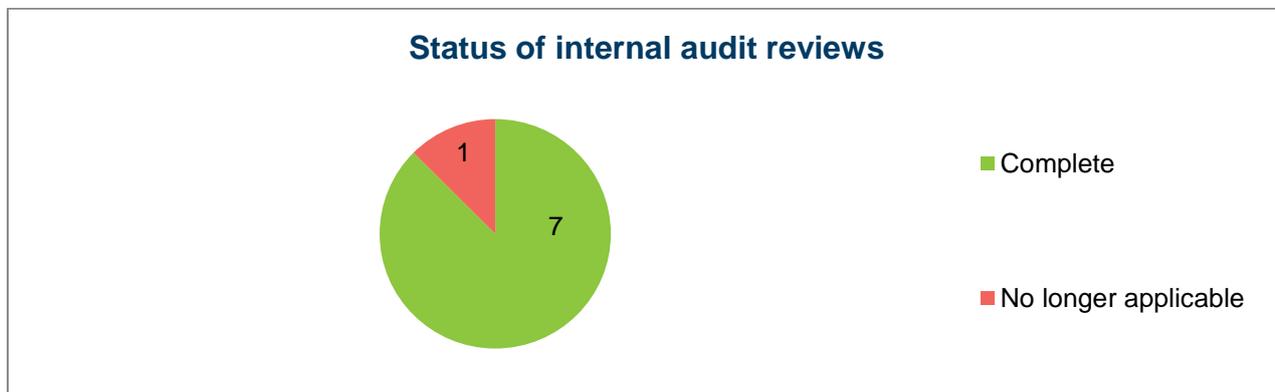
## Internal Audit Progress Report

Summary of Progress	1
Appendix 1 – Progress against 2017/18 internal audit plan	2

# Summary of Progress

This paper provides the Audit Committee with a summary of internal audit activity since its last meeting and confirms the reviews planned for the coming quarter, identifying any changes to the original annual plan.

## Progress against annual audit plan



We have completed three audits in the period to June 2018 – Key Financial Systems, SFC Financial Returns and Student Services.

We discussed our remaining audit for the period, Estates Strategy, with management and agreed that due to ongoing developments in this area, the audit would not take place in the current audit year. We agreed these days would not be applied to cover a review in another area. We have therefore completed our core audit programme for the year, with the exception of our follow up exercise.

Appendix 1 sets out the status of the 2017/18 internal audit programme.

## Plan for next quarter

We will present the following reports to the September 2018 audit committee:

- Follow up
- Annual report

## Action for Audit Committee

The Audit Committee is asked to note the contents of this report and to approve the plan for the next quarter. We also invite any comments on the format or content of this report. Contact details are as follows:

Chris Brown, Engagement Partner	<a href="mailto:chris.brown@scott-moncrieff.com">chris.brown@scott-moncrieff.com</a>	0131 473 3500
Elizabeth Young, Chief Audit Executive	<a href="mailto:elizabeth.young@scott-moncrieff.com">elizabeth.young@scott-moncrieff.com</a>	0141 567 4500
Claire Stevenson, Audit Manager	<a href="mailto:claire.stevenson@scott-moncrieff.com">claire.stevenson@scott-moncrieff.com</a>	0141 567 4500

# Appendix 1 – Progress against 2017/18 internal audit plan

Ref and Name of report	Audit Sponsor	Status	Quarter	Planned Audit C'ttee	Actual Audit C'ttee
A2. Risk management	Board Secretary	Complete	Q2	Mar 18	Mar 18
B1. Key Financial Systems	Director - Finance and Student Funding	Complete	Q2	Jun 18 <sup>1</sup>	Jun 18
B2. SFC Financial Returns – Resources and Cash Drawdowns	Director - Finance and Student Funding	Complete	Q3	Jun 18	Jun 18
C1. Student Experience (Student Services)	Vice Principals	Complete	Q3	Jun 18	Jun 18
D2. Estates Strategy	Vice Principal- College Estate & Facilities	No longer applicable <sup>2</sup>	N/A	N/A	N/A
D3. Business Continuity Plan	Director – ICT and MIS	Complete	Q1	Mar 18	Mar 18
E1. Student Support Funds	Director - Finance and Student Funding	Complete	Q1	Dec 17	Dec 17
E2. Student Sums	Director - Finance and Student Funding	Complete	Q1	Dec 17	Dec 17
F1. Follow up	N/A	N/A	Q4	Sept 18	

<sup>1</sup> Originally scheduled for March; however fieldwork was delayed at the request of management

<sup>2</sup> We agreed with management that due to ongoing developments in this area, this audit would not take place in the current audit year.

<b>Key:</b>	
<b>Complete</b>	Audit work complete and report has been agreed and finalised
<b>Draft Report</b>	A draft report has been issued
<b>Fieldwork complete</b>	The audit work is complete but the draft report has not yet been issued.
<b>Fieldwork in progress</b>	The audit work is in progress.
<b>Planned</b>	The scope and timing have been agreed with management
<b>Planning</b>	The scope of the audit has yet to be agreed with management

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# Audit Strategy Memorandum

Ayrshire College  
Year ending 31 July 2018





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1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks and key judgement areas
5. Wider scope work
6. Fees for audit and other services
7. Our commitment to independence
8. Materiality and misstatements

Appendix A – Key communication points

This document is to be regarded as confidential to Ayrshire College. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance by the Board of Management. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

The Board of Management  
Ayrshire College  
Kilmarnock Campus  
Hill Street  
Kilmarnock  
KA1 3HY

12 June 2018

Dear Members,

**Audit Strategy Memorandum – Year ending 31 July 2018**

We are pleased to present our Audit Strategy Memorandum for Ayrshire College for the year ending 31 July 2018.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

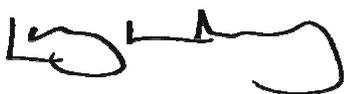
- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Ayrshire College which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0738 724 2052.

Yours faithfully



Lucy Nutley  
Mazars LLP

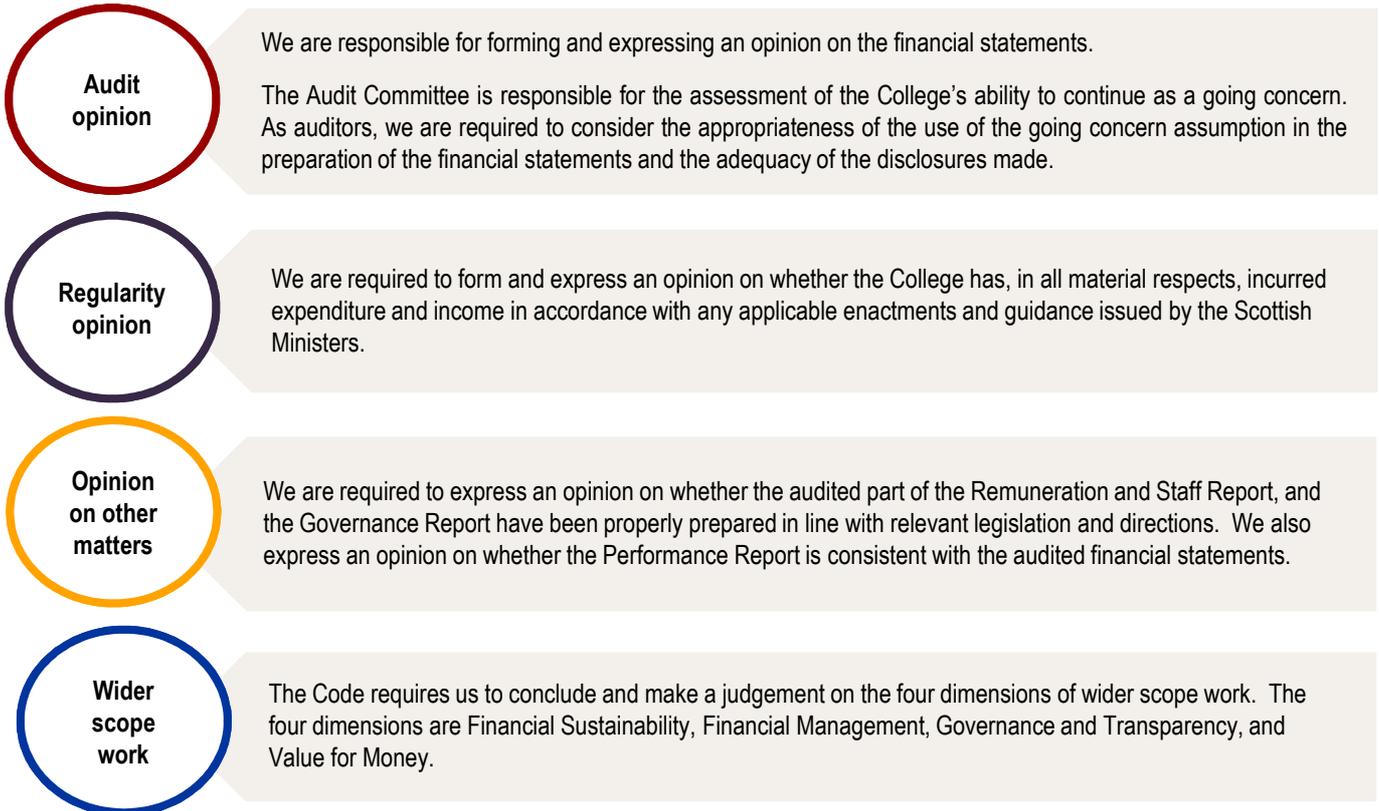
# 1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

## Overview of engagement

We are appointed by the Auditor General for Scotland to perform the external audit of Ayrshire College for the year to 31 July 2018. This is our second year of appointment.

## Responsibilities

Our responsibilities, principally derived from the Code of Audit Practice ('the Code') issued by Audit Scotland, are outlined below.



Our audit does not relieve management or the Board of Management, as those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.



## 2. YOUR AUDIT ENGAGEMENT TEAM



- **Lucy Nutley** – Director
- Lucy is the Engagement Lead for the audit and will be the key point of contact for the Audit Committee. She will have overall responsibility for delivering a high quality audit to the College. Lucy will be responsible for the opinions given on the financial statements and will liaise with the Vice Principal – Finance and ICT, Director of Finance and Student Funding and Head of Financial Services. She will attend Audit Committee meetings, and where appropriate, Board meetings.
- [lucy.nutley@mazars.co.uk](mailto:lucy.nutley@mazars.co.uk)
- 0738 724 2052



- **Joanne Buchanan** – Senior Manager
- Joanne will manage and coordinate the audit and be the key point of contact for the Vice Principal – Finance and ICT, Director of Finance and Student Funding and Head of Financial Services, as well as liaising with Internal Audit. Joanne will oversee completion of audit work to a high standard and attend Audit Committees as appropriate.
- [joanne.buchanan@mazars.co.uk](mailto:joanne.buchanan@mazars.co.uk)
- 0141 227 2422



- **Suzie Graham** – Audit Team Leader
- Suzie will be responsible for leading the onsite work, reviewing the work of more junior members of the team and performing the audit work in more specialised areas.
- [suzie.graham@mazars.co.uk](mailto:suzie.graham@mazars.co.uk)
- 0141 227 2438

1. Engagement and responsibilities

2. Your audit team

3. Audit scope

4. Significant risks and key judgements

5. Wider scope work

6. Fees

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8. Materiality and misstatements

Appendices

### 3. AUDIT SCOPE, APPROACH AND TIMELINE

#### Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

#### Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.



### 3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

#### Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

#### Management's and our experts

Management makes use of experts in specific areas when preparing the College's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Planned audit approach
Defined benefit pension liability and associated accounting entries and disclosures required by FRS 102.	Actuary – Hymans Robertson	We will consider the reasonableness of the actuarial assumptions made, referring to our in-house pension scheme experts.
Land and building valuations	Gerald Eve	Consider the reasonableness of the valuers' output, referring to in-house specialists and relevant reporting on regional and national trends in property values.

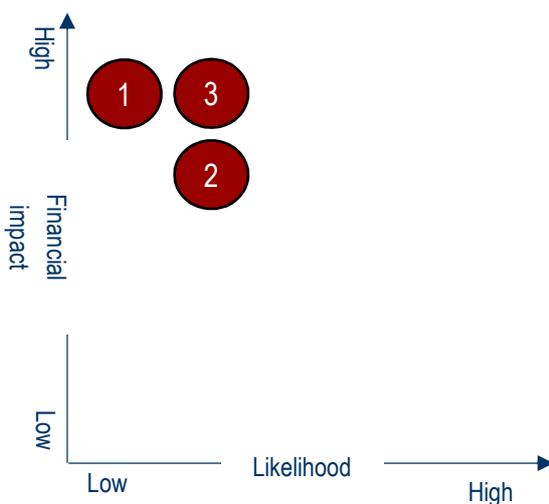


## 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

- Significant risk** A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.
- Enhanced risk** An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
  - other audit assertion risks arising from significant events or transactions that occurred during the period.
- Standard risk** This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the audit risk continuum below, highlights those risks which we deem to be significant and other enhanced risks. We have summarised our audit response to these risks on the next page.



Risk	
1	Management override of control
2	Revenue recognition
3	Land and building valuations



## 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

### Significant risks

	Description of risk	Planned response
1	<p><b>Management override of controls</b></p> <p>Management at various levels within an organisation are 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. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We will address this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>Accounting estimates impacting amounts included in the financial statements;</li> <li>Consideration of identified significant transactions outside the normal course of business; and</li> <li>Journals recorded in the general ledger and other adjustments made in preparation of the financial statements</li> </ul>
2	<p><b>Revenue recognition</b></p> <p>There is a presumption under International Standards on Auditing that there is a significant risk of fraud and error in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements as to when grant income should be recognised and if clawback conditions apply to the funding.</p> <p>The risk above applies only to the non-grant income generated by the College. The risk has been rebutted in relation to the grant income received by the College, given the highly regulated nature of this income.</p>	<p>We will address this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>the design and implementation of controls management has in place to ensure income is recognised in the correct period;</li> <li>cash receipts around the year end to ensure they have been recognised in the right year;</li> <li>the judgements made by management in determining when grant income is recognised; and</li> <li>for major grant income, obtaining counterparty confirmation.</li> </ul>



## 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

	Description of risk	Planned response
3	<p><b>Valuation of land &amp; buildings and accounting for property transactions</b></p> <p>The financial statements contain material entries for land and buildings, totalling £101.2m as at 31 July 2017. Land and buildings are due to receive a full valuation at 31 July 2018. It is likely that revaluation amounts will be material to the financial statements. Valuations will be performed by an expert valuer.</p> <p>As a result of the move to the new Kilmarnock campus in 2017, the College's existing freehold interests in two campuses in the Kilmarnock area are in the process of being sold.</p> <p>The College also has two leased campuses (Townholm and Cumnock) which it is in the process of exiting. There is also a third leased campus at Nethermains. All three of these campuses have a level of provision for dilapidations and/or future lease payments.</p>	<p>We will address this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>confirming the professional qualifications of your valuer;</li> <li>challenging and substantiating the assumptions and appropriateness of the date of valuation used by your valuers in completing the valuations of the new and surplus campus buildings;</li> <li>review of valuations and any associated impairments in the accounts, ensuring that they have been completed on the correct basis for each item and that movements are in line with expectation;</li> <li>consider the appropriateness of the valuation of assets held for sale and whether they should be revalued upwards or downwards; and</li> <li>review of property related provisions in the accounts ensuring that the requirements for recognition of a provision have been met and that the amounts provided have been fairly valued.</li> </ul>



## 4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

### Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement	Planned response
1	<p><b>Valuation of pension liabilities</b></p> <p>The College makes contributions to two pension schemes – the Scottish Teachers Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). While both are defined benefit schemes, it is not possible to identify the College's share of the underlying assets and liabilities in the STSS and it is therefore accounted for as a defined contribution scheme.</p> <p>The College's share of the SPF's underlying assets and liabilities is identifiable and a net liability is recognised in the accounts.</p> <p>Given the scale of the liability recognised in the accounts, a misstatement in the reported position could be material to the financial statements</p>	<p>We will consider the College's arrangements, including the existence of any relevant controls, for making estimates in relation to pension entries within the financial statements. We will also consider the reasonableness of the actuary's assumptions used in providing the College with information in the financial statements through the use of our internal experts.</p>

1. Engagement and responsibilities

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Appendices

## 5. WIDER SCOPE WORK

### Our approach to wider scope work

The Code requires us to conclude and make a judgement on the four dimensions of wider scope work. These are:

- financial sustainability;
- financial management;
- governance and transparency; and
- value for money.

We set out below the work that we intend to perform to reach these judgements:

Dimension	Description	Our planned approach
Financial sustainability	Extending our work on the going concern assumption in the financial statements looking forward two to five years from the reporting date, reviewing and assessing the college's arrangements for financial planning and affordable and sustainable service delivery	<p>We intend to consider:</p> <ul style="list-style-type: none"> <li>• the financial planning system in place for short, medium and long term periods</li> <li>• the adequacy and accuracy of financial reporting arrangements</li> <li>• the reasonableness of affordability assumptions made in financial planning</li> </ul>
Governance Statement	The Governance Statement sets out the internal control arrangements and governance framework in place for the year under review	<p>We intend to consider:</p> <ul style="list-style-type: none"> <li>• the effectiveness of internal control arrangements</li> <li>• the appropriateness of disclosures made in the Governance Statement</li> <li>• whether the disclosure requirements of the Accounts Direction and the Code of Good Governance for Scotland's Colleges have been met</li> </ul>
Financial Management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	<p>We intend to consider:</p> <ul style="list-style-type: none"> <li>• the monitoring of the effectiveness of internal control arrangements</li> <li>• whether the College's budgetary control system is timely and accurate</li> <li>• whether and how the college has assessed their financial capacity and skills</li> </ul>
Value for Money	Value for money concerns using resources effectively and continually improving services.	<p>We intend to consider:</p> <ul style="list-style-type: none"> <li>• the College's evidence of providing value for money</li> <li>• the focus on improving value for money and the pace of change at the College.</li> </ul>



## 5. WIDER SCOPE WORK (CONTINUED)

### Identified significant risks to our wider scope work

We have also considered, as part of our planning, whether there are significant risks that would impact on any of the four areas of our wider scope work that require special audit consideration. At the planning stage we have identified one significant risks, as detailed below. Should our assessment of risk, or our planned approach to address the risk change during the course of the audit, we will report this to the Audit Committee.

Description of significant risk	Planned response
<p><b>Financial sustainability</b></p> <p>Our 2016/17 Annual Audit Report concluded that Ayrshire College had adequate planning arrangements in place, however, financial sustainability concerns had been identified regarding future PFI commitments.</p> <p>The College had identified a specific risk over the funding of the Kilwinning Campus PFI contractual payments after 2017/18. The Kilwinning Campus PFI has a revenue cost of approximately £1.4m per annum, which unlike the NPD model, is unsupported by specific funding. The financial challenge of funding these payments has been highlighted in five year financial plans submitted to the SFC.</p> <p>The College has now received confirmation from the Deputy First Minister that funds obtained from the sale of Holehouse Road may be retained by the College to fund the PFI payment in 2018/19. While this reduces the immediacy of the risk identified, it does not remove it and the College continues to work on financial plans to ensure the affordability of the PFI payment from 2019/20 onwards.</p>	<p>We intend to consider:</p> <ul style="list-style-type: none"> <li>the forecast financial position in the five year financial plans submitted to the SFC, considering reasonableness of assumptions made, including pay costs;</li> <li>alternative plans being considered by the College to ensure affordability of the PFI payment; and</li> <li>the financial reporting arrangements in place at the College.</li> </ul>



## 6. FEES FOR AUDIT AND OTHER SERVICES

### Fees for audit and other services

Our fees for the audit of the financial statements and for any other services are outlined in the tables below.

Service	2017/18 proposed fee	2016/17 final fee
	£	£
Auditor remuneration	26,580	26,320
Pooled costs	1,700	1,640
Contribution to Audit Scotland costs	1,480	1,500
<b>Total Fee</b>	<b>29,760</b>	<b>29,460</b>

The fees outlined above are provided on the basis that we will receive a high-quality set of draft financial statements, supported by good working papers. Should we be required to perform significant levels of additional audit work, or face significant delay in our audit, we will discuss the impact of this on our proposed fee with management.



## 7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Lucy Nutley in the first instance.

Prior to the provision of any non-audit services, Lucy Nutley will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Annual Audit Report.



## 8. MATERIALITY AND MISSTATEMENTS

### Definitions

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

### Summary of initial materiality thresholds

Threshold	Initial threshold £
Overall materiality	1,020,000
Performance materiality	816,000
Trivial threshold for errors to be reported to the Audit Committee	31,000

### Materiality

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of gross expenditure. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of gross expenditure.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.



## 8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

### Performance Materiality

Our audit testing is based on a level of performance materiality, which is a percentage of overall materiality, but also dependent on the level of inherent risk assessed on the area being tested. It is the level we use to calculate our sample sizes, and is our acceptable difference in any substantive analytical procedures. It is lower than overall materiality as it helps to reduce the risk that the total of the uncorrected or undetected misstatements does not exceed materiality for the financial statements as a whole. It is based on between 50 – 80% of overall materiality depending on the risk level. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

### Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £31,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Lucy Nutley.



# APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓



**Audit Committee****18 June 2018**

**Subject:** 2017-18 Internal Audit Rolling Internal Audit Action Plan at 15 May 2018

**Purpose:** To provide the Audit Committee with an update on the Rolling Internal Audit Action Plan as at 15 May 2018

**Recommendation:** The Audit Committee notes the content of this paper

**1. Background**

The Rolling Internal Audit Action Plan was last presented to the Audit Committee at its meeting on 20 March 2018. The Plan has since been updated on an exceptions basis for actions which are now beyond their agreed completion dates.

**2. Current Situation****2013-14 to 2017-18**

Table 1 below lists all remaining points from the internal audits from 2013-14 to 2017-18.

**Table 1**

Ref	Audit Year	Audit Area	Points Raised	Actioned in Period	Remaining Points
1	2013-14	Risk Management	1	1	-
2	2014-15	Asset Management	1	1	-
3	2015-16	Key Financial Systems	1	-	1
4	2017-18	Business Continuity Planning	5	1	4 *
<b>Total</b>			<b>8</b>	<b>3</b>	<b>5</b>

*\* The four remaining points are on track within the timeframe agreed*

We have set out below a summary of all remaining internal audit action points.

**1. Risk Management**

The action relates to the alignment of Operational Risk Registers to the overall corporate Risk Register. The Business Continuity Plan Steering Group has developed operational risk registers. These risk registers were presented to the College's Operational Group on 23 May 2018.

**2. Asset Management**

The item above relates to the development of a long term capital plan. The College's Infrastructure Strategy was presented to and approved by the Business Resources and Infrastructure Committee in March 2018.

### 3. Key Financial Systems

The point relates to updating the finance procedures manual. The Finance team had intended to finalise the procedures manual once the College receives the updated financial memorandum from SFC. The SFC has yet to confirm when the updated memorandum will be published. The revised procedures manual will be completed by 30 September 2018.

### 4. Business Continuity Planning (BCP)

Three of the four audit recommendations to be actioned in this review relate to providing additional detail and information within our existing 88 page Business Continuity Plan. The other recommendation to be actioned is for the College to roll out BCP training to staff across the College. All four of the audit recommendations to be actioned are on track for being completed within the timeframe agreed with Internal Audit.

### **3. Proposals**

No further proposals are contained in this report.

### **4. Consultation**

No formal consultation is required to be completed given the subject matter of this report.

### **5. Resource Implications**

There are no resource implications to be noted in this paper.

### **6. Risks**

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

### **7. Equality Impact Assessment**

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

### **8. Conclusion**

The Audit Committee notes the content of this paper.

**Michael Breen**  
**Vice Principal, Finance and Skills**  
**30 May 2018**

*(James Thomson, Director of Finance and Student Funding)*

### **Publication**

This paper will be published on the College website.