

Audit and Risk Committee

DATE:	5 May 2021
TITLE OF REPORT:	External Audit Strategy
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PURPOSE:	To consider the draft external Audit Strategy Memorandum for the review of the College's financial statements for the year to 31 st July 2021. This will be presented by the external audit providers
KEY RECOMMENDATIONS/ DECISIONS:	<ul style="list-style-type: none"> • To consider the strategy as presented by the external audit providers and agree next steps; • To alert the Committee to the potential for additional work being proposed by the external auditors in respect of the dissolution of the Region, and the associated additional cost. • To consider and approve any additional works and any related additional costs, taking into account the indicative range stated by Audit Scotland;
RISK	The main risks are: <ul style="list-style-type: none"> • That the external audit function does not adequately cover potential areas of risk etc as directed by Audit Scotland • That the Region would not have the required assurance as to financial sustainability and governance responsibilities
RELEVANT STRATEGIC AIM:	To support the continued financial sustainability of the College through a robust, monitored and reported external audit process that satisfies the Board of Management and all external stakeholders
SUMMARY OF REPORT:	Management wish to have the Committee's input into the breadth and scope of internal audit, and into the methodology of the appointment of the internal audit function.

1. Introduction

As background, Audit Scotland make the appointment of the external audit providers for, in normal circumstances, four years. Due to the COVID situation, the external audit contract has been extended by one year with the review of the financial statements for the year to 31st July 2021 being the last year.

The current external auditor contract is with Mazars LLP and they will lead this section of the meeting.

Audit Scotland make a proposal of fee range and it is the job of the Board of Management to agree this. The external audit providers can apply to vary this within the range. Any increase above 10% has to be as a result of application to Audit Scotland and, again, has to be agreed by the College's Board of Management.

The fee range for 2020/21, as notified by Audit Scotland, is £14,460 (2019/20 = £13,930) exclusive of the contribution to Audit Scotland of £570 (2019/20 = £720).

2. Audit Strategy

The external auditors have guidance from Audit Scotland and the Scottish Funding Council to follow, and consideration must be made of South Lanarkshire College's statutory relationship with The Lanarkshire Region, and of the requirements of the Office of the Scottish Charity Regulator.

3. Implications of the Dissolution of The Lanarkshire Region and proposed additional work re the "small body exemption".

Mazars has flagged that if the Lanarkshire Region is dissolved during the 2020/21 financial year, there are implications which would require additional work in respect of the "small body exemption" which South Lanarkshire College currently enjoys no longer being in place. This would necessitate an increased charge to capture increased work in relation to value for money and financial management. Should the dissolution not take place prior to 31st July 2021, there may not be the requirement to undertake additional audit work – this should be considered as part of the discussion, as should the costs of the additional work, which are currently estimated to be in the region of £5,000.

Representatives from Mazars will take the Committee through this issue and the draft Audit Strategy Memorandum (ASM) makes the assumption that additional work will be required. The ASM also intimates that additional work may be required going forward in any case post-dissolution.

College management have made their position clear that, in terms of the dissolution question, they feel that no additional work will be required in 2020/21 unless dissolution takes place prior to 31st July 2021, which currently appears

unlikely. In terms of any additional work required irrespective of the dissolution question, the stance of the College is as below:

Mazars have stated that in previous years they have taken the small body exemption in respect of wider scope work and have therefore previously limited their review to only one dimension, financial sustainability. We do not feel that this is correct. As stated in last year's ASM they were required to complete work on two of the four areas - financial sustainability and governance and transparency. It is also worth noting that the proposed dissolution of the region falls under "governance and transparency" in terms of where they would perceive the risks to lie and this is one of the areas they reviewed last year. Therefore, whilst the work does need to be completed each year, this is not a completely new area to Mazars.

We have reviewed the Code of Audit Practice from Audit Scotland along with their guidance notes in order to determine if the proposed dissolution would have any impact on the 20-21 audit if we were to assume that it goes ahead on 31 July 2021. We believe the issue here is that the wider scope work is "forward looking" rather than the audit of the numbers which is based on what has already happened in the year. Section 32 of the guidance states:

"Where the auditor has identified a particular issue or risk in a small audited body during the audit year that requires additional work or the full wider scope to be applied then the auditor should contact Audit Strategy to discuss the issue and agree an appropriate response and, if necessary, funding."

We appreciate that there have been separate discussions regarding the Wider Scope Work and the implications for this should the dissolution not take place by the end of the academic year and we are content to go with the report in its current form and potentially reissue should there be any clear changes to the situation as it stands prior to the meeting. It would, however, be helpful to understand the rationale for the requirement for this in the reporting for year ending 31 July 2021, when we do not expect any changes to governance arrangements in advance of that date.

Members are asked to:

- **Consider the draft Audit Strategy Memorandum and agree a plan to accommodate any potential change to work required re the dissolution of the Region should this happen prior to 31st July 2021;**
- **Consider and agree the audit fee prior to any additional work required re (a) "the wider scope" issue and (b) the dissolution issue.**