

AUDIT & RISK COMMITTEE

NOTICE

There will be a meeting of the Audit & Risk Committee on 15 May 2023 at 08.00 in the Boardroom and on Teams.

AGENDA

Agenda Item		Paper	Lead
01	Apologies for Absence	N	CB
02	Declaration of any potential Conflicts of Interest in relation to any Agenda items	N	CB
03	Minutes of Previous Meetings <ul style="list-style-type: none"> • 6 February 2023 • 19 Apr 2023 	Y	CB
04	Matters Arising from the Previous Meetings	N	CB
05	Reserved Items Items 05.1 to 05.3 are not publishable being commercially sensitive Item 05.4 is not publishable being the draft of a document which will be published later in final form Item 05.5 is not publishable being work in hand which will enter the public domain later in final form		
05.1	Risk Management – Risk Register a) Commentary on SLC Strategic Risk Register	Y	HoF
05.2	b) SLC Strategic Risk Register	Y	HoF
05.3	c) Regional Strategic Risk Register	Y	HoF
05.4	Draft Report from the Audit and Risk Committee to the Board of Management and Audit Scotland	Y	C-ARC
05.5	Rolling Audit Recommendation Review Update to the Committee	Y	HoF
05.6	Governance Rolling Review Update at May 2023	Y	CB
06	Reserved Items Item 06.1 is not publishable being the draft of a document which will be published later in final form		
06.1	SLC External Audit Plan 2022/23 Draft Section 22 Review and Audit Plan for 2023/24	Y	AS
06.2	Internal Audit • Risk Appetite – Board presentation	Y	HL
06.3	• Update	N	HL

07	Matters for Information		
	Reserved Items Items 07.3 and 07.4 are not publishable being confidential communications intended to be published later in the Annual Reports by the recipients as part of the Annual Report		
07.1	Audit Scotland <ul style="list-style-type: none"> Extract from Technical Bulletin 2022/3 Statutory Fees 2022/23 – letter from Finance Directors' Network 	Y	HoF
07.2		Y	HoF
07.3	Certificate of Assurance Letter to RSB	Y	HoF
07.4	Letter of Representation to External Auditors	Y	HoF
08.	Summation of Actions and Date of Next Meeting	N	CB
09.	Next Meeting – TBC Note: RSB ARC – 15 th May @ 17.30	N	CB
10.	Any Other Business	N	CB
11.	Risk & Equalities	N	CB

Key:	C-ARC	Chair of the Audit & Risk Committee
	C-BoM	Chair of the Board of Management
	P	Principal
	DP	Depute Principal
	CB	Clerk to the Board
	HoF	Head of Finance
	HL	Henderson Loggie (Internal audit service)
	AS	Audit Scotland (External audit service)



AUDIT & RISK COMMITTEE

MINUTES

Meeting of the Audit & Risk Committee on Monday 6 February 2023 at 0800 hours via Microsoft Teams & in the Boardroom at South Lanarkshire College

PRESENT	IN ATTENDANCE
C McLaughlin (Committee Chair)	P Hutchinson (Chairing Member)
A Doherty	D Hoosie (Mazars)
R Calin	S Graham (Mazars)
P Scott (Governance Professional)	S McNaught (Henderson Loggie)
	C Gibb (Chair of FRC)
	A Sherry (Principal)
	S McManus (Depute Principal)
	K McAllister (Head of Finance)

Agenda Item	
01	<p>Apologies for Absence</p> <p>Although none were received it transpired subsequently that F Whittaker had experienced logging on. The Governance Professional advised that although the meeting was quorate there was not a majority of non-executive members present and that accordingly any decisions made would require either to be ratified at a later date or referred to the Board for decision</p>
	<p>The Committee Chair welcomed new faces and took the opportunity of paying tribute to Lucy Nutley and thanking her for her contribution to the work of the Committee prior to leaving Mazars</p>
02	<p>Declaration of any potential Conflicts of Interest in relation to any Agenda items</p> <p>None received</p>
03	<p>Minutes of Previous Meeting</p> <p>These had already been circulated and were approved</p>

04	<p>Matters Arising from the Previous Meeting</p> <p>There we no matters arising which were not covered under other heads of business</p>
<p>Matters for Approval</p>	
05	<p>Internal Audit</p> <ul style="list-style-type: none"> • Student Support Funds Audit • Draft Audit Report • Letter to SAAS - HE activity • Letter to SFC - FE activity • Annual Internal Audit Plan 2022/23 <p>These were circulated and duly noted. It appeared likely that Audit Scotland would be the new external auditors – who already acted as such for the Regional Board and the Clerk was tasked with reaching out to Audit Scotland so as to open effective lines of communication and with a view to inviting their attendance at Committee meetings. This was duly Minuted as an Action Point</p> <p>It seemed likely that audit fees generally would be likely to increase substantially throughout the sector and in that regard the Acting Principal advised that the priority would be to meet additional costs without detriment to the students.</p> <p>The Annual Internal Audit Plan could not be approved without wider circulation and this would now be circulated for comment by all Committee members before being passed to the Board for approval – as an Action Point. There were recommendations that some of the detail of the process be tightened as there had been minor discrepancies which had been corrected. Management agreed to review the processes and feed back to Committee.</p> <p>The auditors indicated that there would be additional days requested to cover additional work and the Committee indicated that would be passed to the Board with a recommendation for acceptance. This was Minuted as an Action Point</p>
<p>Matters for Discussion</p>	
06	<p>External Audit 2021/22</p> <ul style="list-style-type: none"> • Progress Report (verbal) • Expected Audit Fee 2022/23 <p>The Committee was pleased to note that good progress was being made and it was hoped that the Annual Report could be closed off in early course. The external auditors suggested that the recent decision to terminate the contracts of employment of two key figures should be factual and brief and this was welcomed by the Committee. The expected audit fee was work in hand and this was understood and accepted by the Committee.</p>
<p>Matters for Information</p>	

07	<p>Audit Recommendations Monitor</p> <p>This was duly considered and is referred to for its terms. Cyber Security of course is a dynamic matter under constant review. The progress with Health & Safety was particularly noted.</p>
08	<p>Audit undertaken by external bodies - Cyber Essentials</p> <p>This was very much work in hand and a more detailed report would be brought back to the Committee at a later date</p>
09	<p>College Quality Audit Group (QAG)</p> <ul style="list-style-type: none"> • EMA "Spot Check 2" audit • Audit Programme 2022/23 <p>The report as submitted was duly noted and is referred to for its terms</p>
10	<p>Risk Management</p> <p>A. College Risk Register as at 19 Jan 2023 B. Regional Risk Register as Jan 2023</p> <p>The risk registers as submitted were duly noted</p>
11	<p>Audit Scotland Technical Bulletin (2022/4)</p> <ul style="list-style-type: none"> • Extract from Oct / Dec 2022 <p>The Bulletin was duly noted</p>
	<p>Reserved items</p> <p>Item 5 is not publishable being matters which will be published / reported later in final form Items 08 & 10 are not publishable being commercially sensitive information.</p>
12	<p>Any Other Business</p>
13	<p>Summation of Actions and Date of Next Meeting</p> <p>Three Action Points were noted as above minuted and highlighted.</p> <p>The next scheduled meeting was for 15th May 2023 but there would need to be an additional joint meeting with FRC to approve the final accounts</p>

Unconfirmed Minute



Special Meeting of the Audit & Risk Committee

Special Meeting of the Audit & Risk Committee	
Held on 19 th April 2023 in the Boardroom and on Teams	
Present	Absent
C McLaughlin - Committee Chair A Docherty - Staff Member F Whittaker	D Hogan
Board members in attendance	In Attendance by Invitation
H Anderson R Calin - Student Member C Gibb - Chair of FRC S McManus – Principal	K McAllister – Head of Finance A Sherry – former Acting Principal* D Archibald – Internal Auditor D Hoose – External auditor A Kerr – Audit Scotland
Clerk – P F Scott – Governance Professional	
*Reporting Officer for the relevant accounting period	

AGENDA	
Agenda Item	
1.	Declaration of Members' Interests None received
	The Governance Professional advised that the Chairing Member had been invited to attend but had been obliged to tender his apologies. All other non-committee Board members were present at the discretion of the Committee Chair. The Committee Chair confirmed that he would welcome contributions from all present. At the request of the Committee Chair, the Governance Professional confirmed that the Committee was quorate with a majority of non- executive members
2.	Previous Minutes None were presented as this was a single item agenda but would be considered at the next available committee meeting
3.	Draft Annual Audit Report for the year to 31/7/2022 The external auditor was invited to address the meeting.

	<p>In speaking to the narrative, he pointed out that this identified certain sectoral issues common to all colleges in Scotland.</p> <p>It was in fact a positive report which imposed no requirements on the college and was a credit to the management of the college. In the previous year's accounts, there had been four areas where the college had been unable to evidence compliance with the Code of Good Governance but the Governance Statement confirms that all necessary steps have been taken to address these areas and the College was fully compliant with the Code as at 31st July 2022.</p> <p>The Report confirmed that the Financial Statements were unqualified.</p> <p>In response to questioning the external auditor agreed to make one minor clerical amendment in the interests of clarity. The matter of audit costs was also considered and there was clearly broad agreement in principle.</p> <p>Subject only to correction of the one point of detail the committee was happy to recommend acceptance, which would allow the Finance and Resources Committee, and the Board of Management, to consider the audited Financial statements.</p> <p>On a point of order, the committee noted the intention that the report and accounts would be signed by the Acting Principal who had been in post for the majority of the relevant financial year. The Principal confirmed for the record that she would be happy to delegate this function to Alan Sherry on the basis of the advices contained in the paper which had been prepared by the Governance Professional and circulated to all present.</p>
	<p>Note that the draft Report as considered would not be publishable – being a draft, the final version of which would be published later</p>
<p>4.</p>	<p>AOCB There being no other competent business, the meeting was declared closed</p>

AUDIT AND RISK COMMITTEE

DATE:	15th May 2023
AGENDA REF:	05.6
TITLE OF REPORT:	Governance Rolling Review
AUTHOR AND CONTACT DETAILS	Peter Scott peter.scott@slc.ac.uk
PURPOSE:	To seek guidance from Members as to the suggested content of the Rolling Governance Review in the context of "Audit & Risk" so as to meet challenge and identify areas for improvement and/or potential improvement.
KEY RECOMMENDATIONS/ DECISIONS:	Members are recommended to note that: <ul style="list-style-type: none"> the Rolling Review should build on the recommendation of the Internal Auditors, building on their recommendations and be informed by input from the Senior Leadership Team; and Best Practice suggests that a structured Governance Review should be linked to the Principles set out in the Code of Good Governance. Members are asked to: <ul style="list-style-type: none"> suggest content for the Rolling Governance Review for the Accountability section.
RISK	Governance is recognised as a potential strategic management risk and appropriate mitigating actions such as having a Governance Rolling Review which is best practice is required.
RELEVANT STRATEGIC AIM:	<ul style="list-style-type: none"> Highest quality education and support. Sustainable Behaviors. Successful Students
SUMMARY	<ul style="list-style-type: none"> This report sets out a draft of the Rolling Governance Review and seeks to gain guidance from the members of ARC. It focuses on the principles of good governance with subheadings of importance relating to each principle. All Committee Members are being asked to input into the relevant section of the plan.

1. INTRODUCTION

1.1 This paper sets out a draft of the Rolling Governance Review and seeks to gain guidance from the members of the Audit & Risk Committee.

2. GOVERNANCE IMPROVEMENT PLAN

2.1 The Governance Improvement Plan was established to address any identified or emerging issues identified in the ongoing review of Governance at South Lanarkshire College. This plan was completed, and the Board of Management agreed that there should now be a "Governance Rolling Review."

3. GOVERNANCE ROLLING REVIEW

3.1 The principles of good governance are:

- 3.1.1 Leadership and Strategy
- 3.1.2 Quality of the Student Experience
- 3.1.3 Accountability
- 3.1.4 Effectiveness
- 3.1.5 Relationships and Collaboration

3.2 The Governance Rolling Review plan will focus on these areas, with subheadings of importance for FRC Members, including: accountability, quality monitoring & oversight and partnership working.

3.3 Members are requested to provide content for the Rolling Governance Review.

4 RISK

4.1 Governance is recognised as a potential strategic management risk and appropriate mitigating actions such as having a Governance Rolling Review, which is best practice, is required.

5 EQUALITIES

5.1 There are no new matters for people with protected characteristics or from areas of multiple deprivation which arise from consideration of the report.

6 RECOMMENDATIONS

6.1 Members are recommended to note that:

- 6.1.1 the Rolling Review should build on the recommendation of the Internal Auditors, building on their recommendations and be informed by input from the Senior Leadership Team; and
- 6.1.2 Best Practice suggests that a structured Governance Review should be linked to the Principles set out in the Code of Good Governance

6.2 Members are asked to:

- 6.2.1 Suggest content for the Rolling Governance Review particularly for the Financial & Institutional Sustainability section.

ROLLING GOVERNANCE REVIEW DRAFT

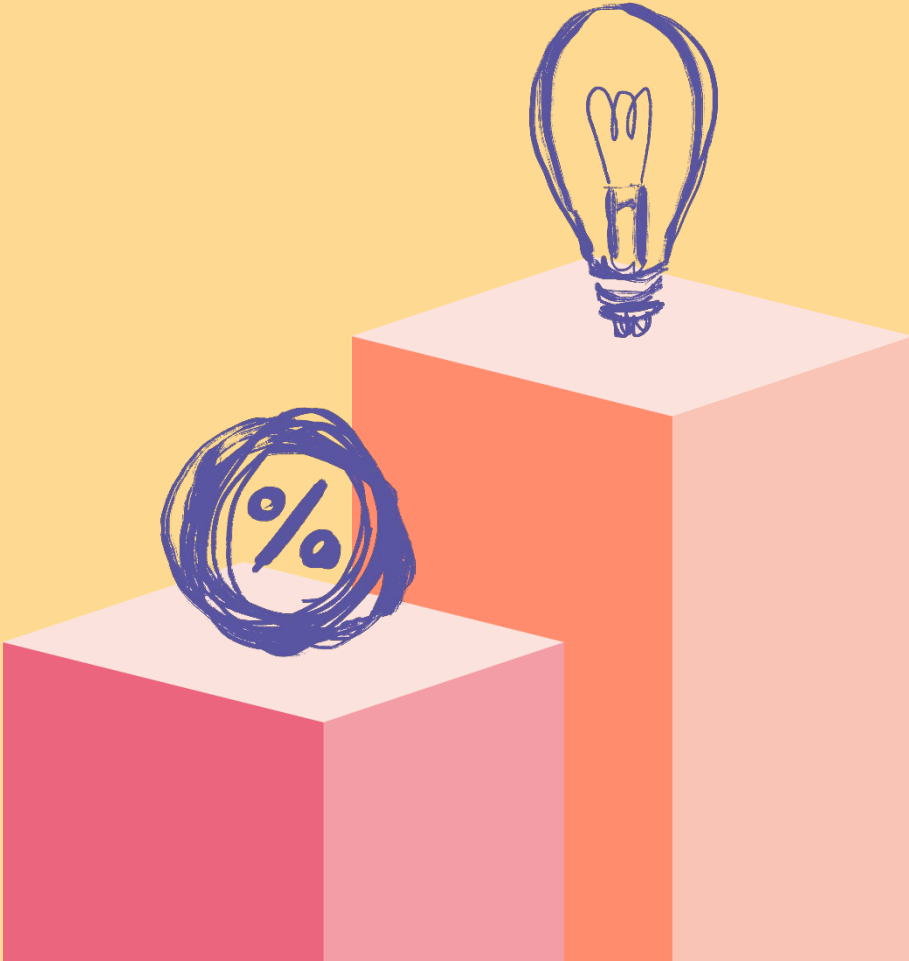
The actions to deliver improvement contained in this plan will be developed and implemented to address any previously identified or emerging issues identified by way of Ongoing Review of Governance at South Lanarkshire College. This will proceed following consultation with Board Members and Senior Staff. A RAG system has been used to enable tracking of progress against actions and timescales.

Development Categories	Issue	Action	By Whom and When	Status and Progress Update as at *****
Leadership & Strategy	Conduct in Public Life	Training in New Code of Governance to be provided	Governance Professional by XX.	Being drafted
	Vision & Strategy			June 2023
	Performance			
	Corporate Social Responsibility			
Quality of Student Experience	Student Engagement			
	Relevant High-Quality Learning			
	Quality Monitoring & Oversight			
Accountability	Accountability & Delegation	ARC		
	Risk Management	ARC		
	Audit Committee	Membership to be adjusted in line with New Code	Governance Professional	At Planning Stage
	Remuneration Committee	RC		
	Financial & Institutional Sustainability			
	Staff Governance			

Effectiveness	Board Chair			
	Senior Independent Member			
	Board Members			
	Principal & Chief Executive			
	Governance Professional	Recruit new postholder	Board	At planning Stage
	Appointment Induction & Training			
	Board Evaluation			
Relationships & Collaboration	Partnership Working	Build Collaborative initiatives with Regional Partner	Clerks to Board	Projects identified for training & development
		Community Development		
Other		Equalities		
		Student Association Support & Recognition		

Board Development Day

Risk Appetite



2 May 2023

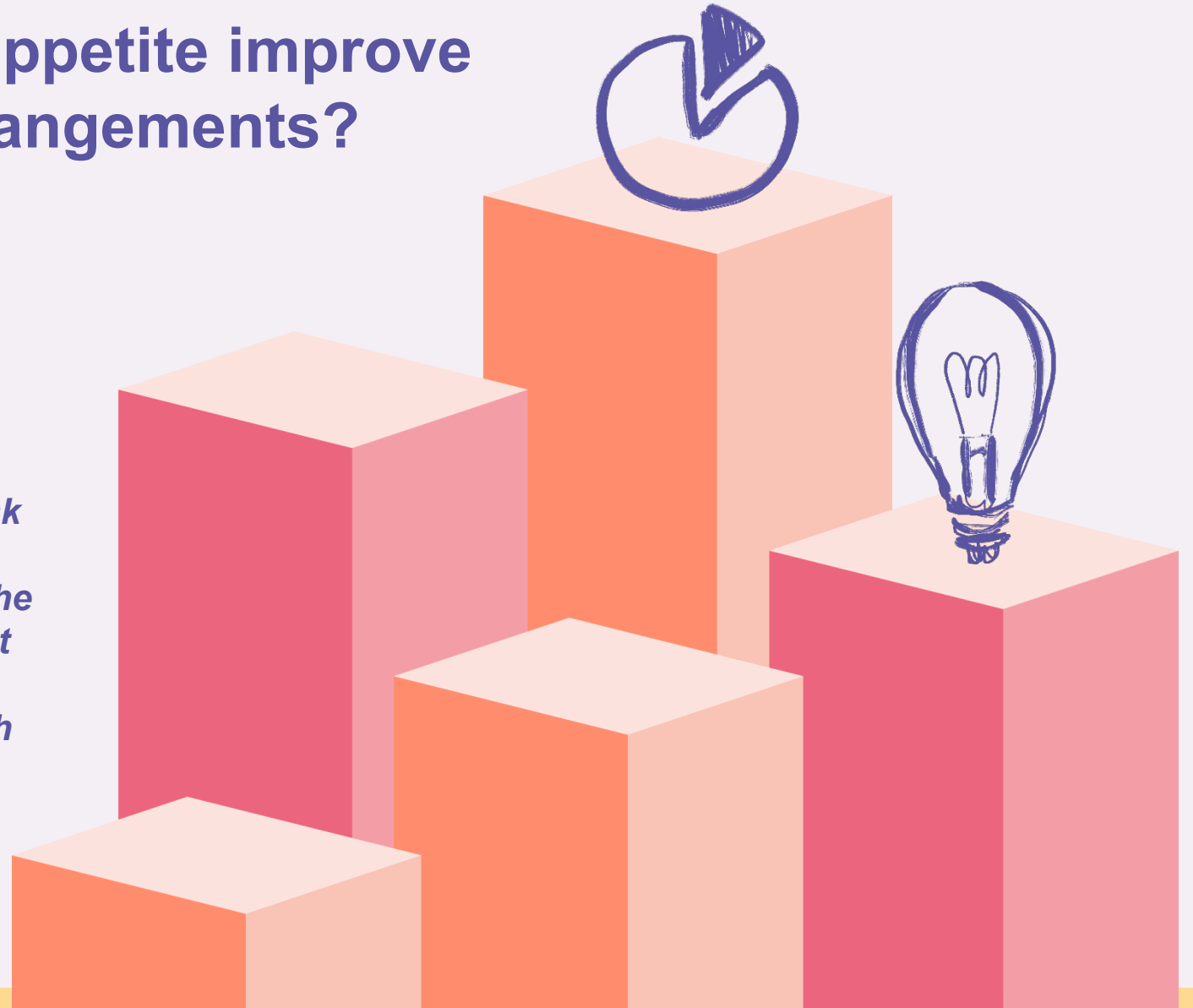
1. Introductions - About me

- **David Archibald, Partner and Head of Internal Audit Services**
- Engagement Lead for the provision of the internal audit service to a large number of RSL and other clients across Scotland.
- Over 25 years of audit and consultancy experience – primarily in the public sector environment but increasingly in the commercial sector.
- Have reviewed risk management arrangements in a number of Colleges.
- Have delivered tailored risk management training and risk advisory consultancy activity to a variety of clients.
- Spent 3 years as the head of policy and performance in a medium sized local authority where I had responsibility for corporate risk management.
- Also previously a Board Member for a small charity.

2. How can setting a risk appetite improve your risk management arrangements?

“Risk appetite is the overall level of risk exposure that an organisation is prepared to accept. (Source: HM Treasury – Orange Book).”

“It is a responsibility of the Board to define Risk Appetite and then ensure implementation. Establishing the risk appetite therefore helps the Board (and management) to consider the way it responds to risks, and what it is prepared to undertake or not.” (Source: Getting to Grip with Risks).



2. Benefits of Setting a Risk Appetite

“By determining the amount of risk it is prepared to accept the Board is able to improve organisational control, enhance decision-making, revitalise performance, recognise how to reduce risks and make better decisions on the deployment of resources to the delivery of the business objectives.”

The above quote is drawn from the HM Treasury guidance *‘Thinking about Risk - Managing your Risk Appetite: A practitioner’s guide’* which describes a framework for setting an organisation’s risk appetite.

3. How does risk appetite link into risk reporting?

Risk Classification	Residual Risk Score (set by senior management)	Colour	Risk appetite score (set by the Board)
VERY HIGH	Risks with a score of above 20	Red	5 - Hungry
HIGH	Risks with a score of between 15 and 19	Amber	4 - Open
SIGNIFICANT	Risks with a score of between 10 and 14	Yellow	3 - Cautious
MODERATE	Risk with a score of between 7 and 9	Light Green	2 - Minimalist
LOW	Risks with a score lower than 7	Green	1 - Averse

So here we have a scenario where the net (or residual) risk score after mitigation is **21**, which is **RED** but the risk appetite level set for the Board is **3** (or Cautious), which is **AMBER**. So for this risk there is a mismatch between the risk score set by management and the risk appetite level set by the Governing Body. So in this instance this would be highlighted in the covering report to Committee.



4. Group Discussion 1 – Setting the Risk Appetite

Challenge

To establish the collective Board view on the risk appetite level for each of the selected 12 risk categories in the HM Treasury guidance. The risk category for Strategy and Security have been omitted following discussion with management.

The Task

We will spend 50 minutes collectively assessing each of the agreed risk categories for South Lanarkshire College against the HM Treasury risk appetite framework to arrive at a risk appetite score for each risk category of between 1 and 5 (or Averse and Eager)

HM Treasury Orange Book - Risk Appetite Model

Category	Averse	Minimal	Cautious	Open	Eager
Governance	Avoid actions with associated risk. No decisions are taken outside of processes and oversight / monitoring arrangements. Organisational controls minimise risk of fraud, with significant levels of resource focused on detection and prevention.	Willing to consider low risk actions which support delivery of priorities and objectives. Processes, and oversight / monitoring arrangements enable limited risk taking. Organisational controls maximise fraud prevention, detection and deterrence through robust controls and sanctions.	Willing to consider actions where benefits outweigh risks. Processes, and oversight / monitoring arrangements enable cautious risk taking. Controls enable fraud prevention, detection and deterrence by maintaining appropriate controls and sanctions.	Receptive to taking difficult decisions when benefits outweigh risks. Processes, and oversight / monitoring arrangements enable considered risk taking. Levels of fraud controls are varied to reflect scale of risks with costs.	Ready to take difficult decisions when benefits outweigh risks. Processes, and oversight / monitoring arrangements support informed risk taking. Levels of fraud controls are varied to reflect scale of risk with costs.



HM Treasury Orange Book - Risk Appetite Model

Category	Averse	Minimal	Cautious	Open	Eager
Operations	<p>Defensive approach to operational delivery - aim to maintain/protect, rather than create or innovate.</p> <p>Priority for close management controls and oversight with limited devolved authority.</p>	<p>Innovations largely avoided unless essential. Decision making authority held by senior management.</p>	<p>Tendency to stick to the status quo, innovations generally avoided unless necessary.</p> <p>Decision making authority generally held by senior management. Management through leading indicators.</p>	<p>Innovation supported, with clear demonstration of benefit / improvement in management control.</p> <p>Responsibility for non-critical decisions may be devolved.</p>	<p>Innovation pursued – desire to ‘break the mould’ and challenge current working practices.</p> <p>High levels of devolved authority – management by trust / lagging indicators rather than close control.</p>

HM Treasury Orange Book - Risk Appetite Model

Category	Averse	Minimal	Cautious	Open	Eager
Legal	Play safe and avoid anything which could be challenged, even unsuccessfully.	Want to be very sure we would win any challenge.	Want to be reasonably sure we would win any challenge.	Challenge will be problematic; we are likely to win, and the gain will outweigh the adverse impact.	Chances of losing are high but exceptional benefits could be realised.
Property	Obligation to comply with strict policies for purchase, rental, disposal, construction, and refurbishment that ensures producing good value for money.	Recommendation to follow strict policies for purchase, rental, disposal, construction, and refurbishment that ensures producing good value for money.	Requirement to adopt arrange of agreed solutions for purchase, rental, disposal, construction, and refurbishment that ensures producing good value for money.	Consider benefits of agreed solutions for purchase, rental, disposal, construction, and refurbishment that meeting organisational requirements.	Application of dynamic solutions for purchase, rental, disposal, construction, and refurbishment that ensures meeting organisational requirements.



HM Treasury Orange Book - Risk Appetite Model

Category	Averse	Minimal	Cautious	Open	Eager
Financial	Avoidance of any financial impact or loss, is a key objective.	Only prepared to accept the possibility of very limited financial impact if essential to delivery.	Seek safe delivery options with little residual financial loss only if it could yield upside opportunities.	Prepared to invest for benefit and to minimise the possibility of financial loss by managing the risks to tolerable levels.	Prepared to invest for best possible benefit and accept possibility of financial loss (controls must be in place).
People	Priority to maintain close management control & oversight. Limited devolved authority. Limited flexibility in relation to working practices. Development investment in standard practices only	Decision making authority held by senior management. Development investment generally in standard practices.	Seek safe and standard people policy. Decision making authority generally held by senior management.	Prepared to invest in our people to create innovative mix of skills environment. Responsibility for noncritical decisions may be devolved.	Innovation pursued – desire to ‘break the mould’ and challenge current working practices. High levels of devolved authority – management by trust rather than close control.



HM Treasury Orange Book - Risk Appetite Model

Category	Averse	Minimal	Cautious	Open	Eager
Commercial	Zero appetite for untested commercial agreements. Priority for close management controls and oversight with limited devolved authority.	Appetite for risk taking limited to low scale procurement activity. Decision making authority held by senior management.	Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management. Management through leading indicators.	Innovation supported, with demonstration of benefit / improvement in service delivery. Responsibility for non-critical decisions may be devolved.	Innovation pursued – desire to ‘break the mould’ and challenge current working practices. High levels of devolved authority – management by trust / lagging indicators rather than close control.
Data and information management	Lock down data & information. Access tightly controlled, high levels of monitoring.	Minimise level of risk due to potential damage from disclosure.	Accept need for operational effectiveness with risk mitigated through careful management limiting distribution.	Accept need for operational effectiveness in distribution and information sharing.	Level of controls minimised with data and information openly shared.

HM Treasury Orange Book - Risk Appetite Model

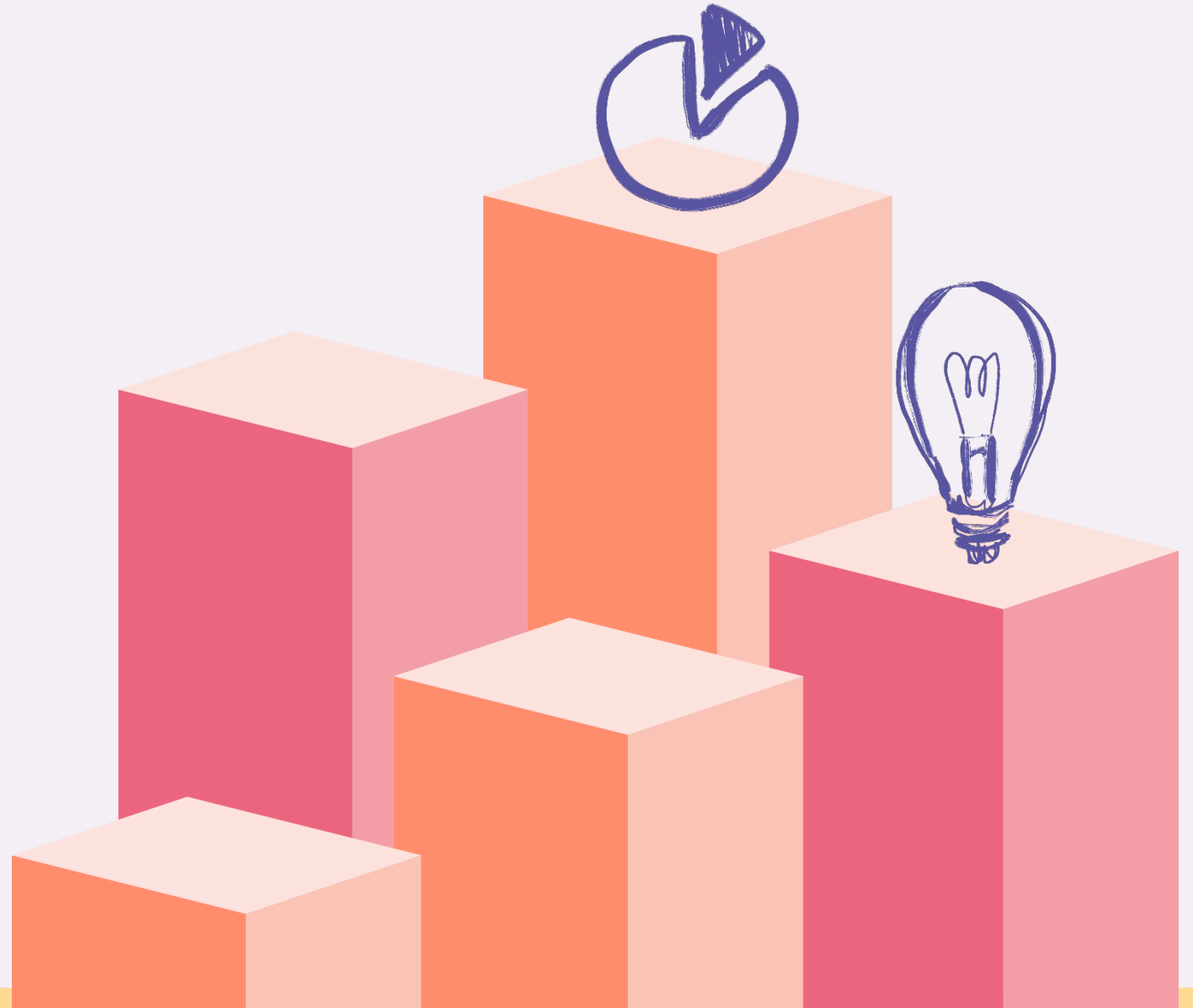
Category	Averse	Minimal	Cautious	Open	Eager
Technology	General avoidance of systems / technology developments.	Only essential systems / technology developments to protect current operations.	Consideration given to adoption of established / mature systems and technology improvements. Agile principles are considered.	Systems / technology developments considered to enable improved delivery. Agile principles may be followed.	New technologies viewed as a key enabler of operational delivery. Agile principles are embraced.
Project / Programme	Defensive approach to transformational activity - aim to maintain/protect, rather than create or innovate. Priority for close management controls and oversight with limited devolved authority. Benefits led plans fully aligned with strategic priorities, functional standards.	Innovations avoided unless essential. Decision making authority held by senior management. Benefits led plans aligned with strategic priorities, functional standards.	Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management. Plans aligned with strategic priorities, functional standards.	Innovation supported, with demonstration of commensurate improvements in management control. Responsibility for noncritical decisions may be devolved. Plans aligned with functional standards and organisational governance.	Innovation pursued – desire to ‘break the mould’ and challenge current working practices. High levels of devolved authority – management by trust rather than close control. Plans aligned with organisational governance.



HM Treasury Orange Book - Risk Appetite Model

Category	Averse	Minimal	Cautious	Open	Eager
Reputational	Zero appetite for any decisions with high chance of repercussion for organisations' reputation.	Appetite for risk taking limited to those events where there is no chance of any significant repercussion for the organisation.	Appetite for risk taking limited to those events where there is little chance of any significant repercussion for the organisation.	Appetite to take decisions with potential to expose organisation to additional scrutiny, but only where appropriate steps are taken to minimise exposure.	Appetite to take decisions which are likely to bring additional Governmental / organisational scrutiny only where potential benefits outweigh risks.

**Recap and next
steps**



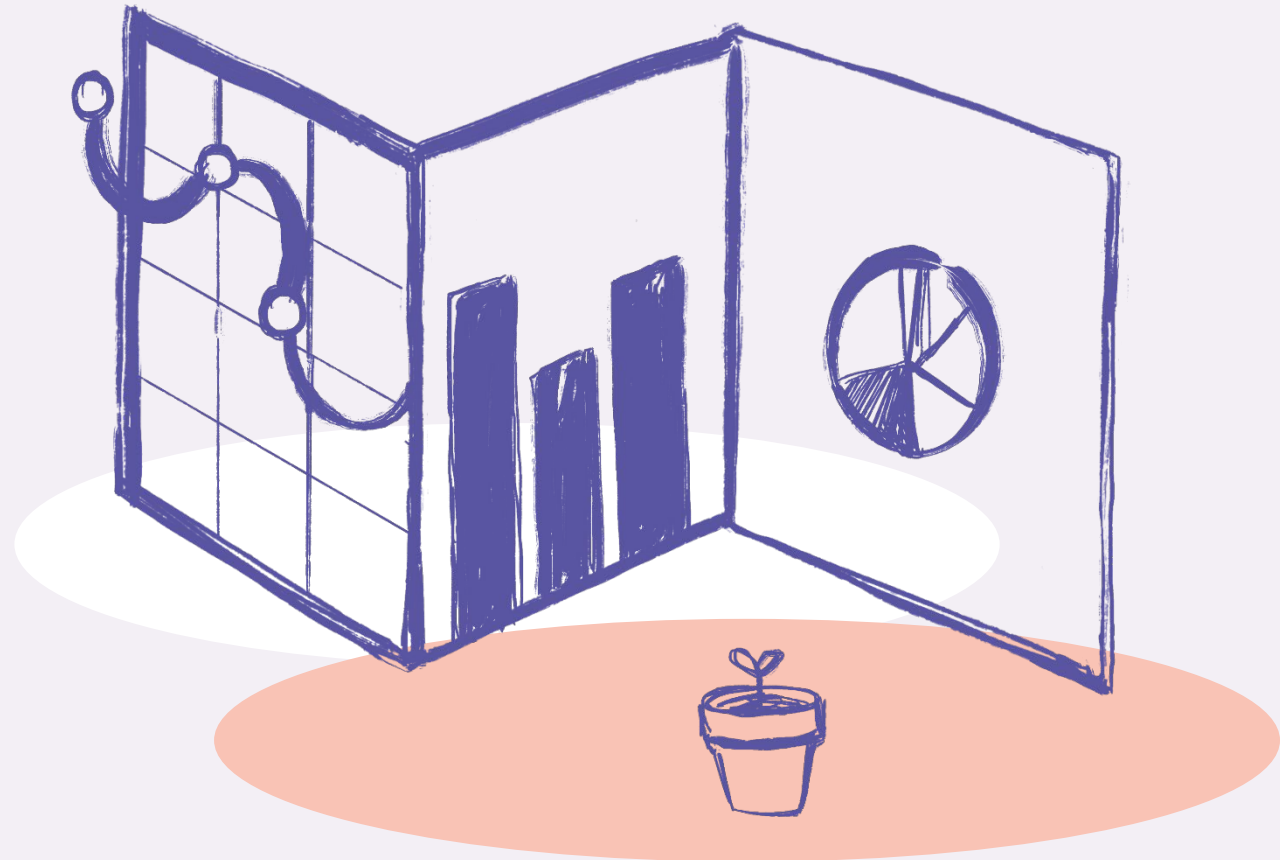
Any Questions?

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Technical Bulletin

2023/1

Technical developments and emerging risks from
January to March 2023



 AUDIT SCOTLAND

Prepared by Audit Scotland for appointed auditors and audited bodies in all sectors

24 March 2023

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1: Introduction

Purpose

The purpose of Technical Bulletins from Audit Scotland's Professional Support is to provide auditors appointed by the Auditor General for Scotland and Accounts Commission for Scotland with:

- information on the main technical developments in each sector during the quarter
- information on professional matters during the quarter that are expected to have applicability to the public sector
- summaries of responses to any requests from auditors for technical consultations with Professional Support.

Appointed auditors are required by the Code of Audit Practice to pay due regard to Technical Bulletins. The information on technical developments is aimed at highlighting the key points that Professional Support considers auditors in the Scottish public sector require generally to be aware of. It may still be necessary for auditors to read the source material if greater detail is required in the circumstances of a specific audited body. Source material can be accessed by using the hyperlinks.

Any specific actions that Professional Support recommends that auditors take are highlighted in **green**.

Technical Bulletins are also published on the Audit Scotland [website](#) and therefore are available for audited bodies and other stakeholders to access. However, hyperlinks to source material indicated with an asterisk (*) link to files on Audit Scotland's [SharePoint*](#) and are only accessible by auditors.

Highlighted items

Professional Support highlights in the following table a selection of the items in this Technical Bulletin that are of particular importance:

Highlighted items		
Professional Support has published model forms of IARs for 2022/23 [paragraph 1]	PAF has issued a revised edition of PN 10 [paragraph 6]	Treasury has issued a consultation paper on changes to asset valuation [paragraph 9]
Professional Support has issued guidance for auditors on cyber security [paragraph 14]	Professional Support has published guidance on reporting on summary financial information in 2022/23 [paragraph 18]	Treasury has issued guidance on preparing the 2021/22 WGA returns [paragraph 21]
Professional Support has published guidance on auditing 2021/22 WGA returns [paragraph 28]	Professional Support has issued guidance for auditors on climate change [paragraph 35]	The SG has issued statutory guidance on accounting for equal pay [paragraph 37]
The SG has issued revised statutory guidance on transformation projects [paragraph 43]	CIPFA has issued guidance on accounting for infrastructure assets [paragraph 47]	Professional Support has published two assurance protocols for 2022/23 [paragraph 52]
CIPFA has issued guidance notes on the 2022/23 accounting code [paragraph 55]	CIPFA has issued a disclosure checklist for 2022/23 [paragraph 58]	Audit Scotland hosted an event on asset valuation in local government [paragraph 62]
The Accounts Commission has published a financial bulletin on 2021/22 [paragraph 65]	Professional Support has published a briefing on section 106 charities [paragraph 52]	Professional Support has published guidance on risks of misstatement in 2022/23 annual report and accounts [paragraphs 73 and 86]
Treasury has issued a revised edition of the 2022/23 FReM and the 2023/24 FReM [paragraphs 77 and 81]	The SG has issued the accounts manual for 2022/23 [paragraph 89]	The SG has issued the NHS CAM for 2022/23 [paragraph 91]

Consulting with Professional Support

Auditors should consult with Professional Support by sending an email to TechnicalQueries@audit-scotland.gov.uk.

2: All sectors

Independent auditor's reports for 2022/23

1. Professional Support has published the following technical guidance notes (TGNs) to provide auditors with model forms of Independent Auditor's Reports (IAR) which should be used for the 2022/23 annual accounts of public bodies in Scotland:

- TGN 2023/2(CG) for central government bodies
- TGN 2023/3(H) for health boards.

2. Auditors are required by the Code of Audit Practice to prepare their IARs in accordance with these TGNs. The TGNs are available with supporting material to auditors on [SharePoint*](#) and are also freely available from the Audit Scotland [website](#).

3. The model forms of IARs set out in the appendices of the TGNs have been tailored to reflect relevant public sector legislation and augmented by the reporting requirements of the Auditor General and Accounts Commission.

4. There are a number of changes to the model forms of IAR and to the application guidance in 2022/23. These are summarised in the following table:

Area	Change
Model IARs	The description of the financial reporting framework has been removed from the 'true and fair' element of the opinion on the financial statements.
	The period of appointment disclosure has been simplified.
	The explanation of the extent to which the audit is capable of detecting irregularities has been enhanced with a view to reducing any perceived need for extensive local tailoring.
Application guidance	The guidance on the period of appointment disclosure has been revised to reflect the amendment in standard wording.
	Auditors should consult with Professional Support on any tailoring of the standard wording of the explanation of the extent to which the audit is capable of detecting irregularities.
	A new Auditor Action has been added in respect of identifying the audited parts of the Remuneration and Staff Report.

5. For the 2022/23 audits of central government bodies and health boards, auditors should:

- use the relevant model form of IAR for each audited body
- follow the specified wording other than where tailoring adjustments are set out in the application guidance in the TGN
- consult with Professional Support on any modified opinion or conclusion
- complete an Auditor Action Checklist for each IAR prepared.

Revised practice note 10

6. The [Public Audit Forum](#) has issued a revised edition of [Practice Note 10 Audit of Financial Statements and Regularity of Public Bodies in the UK](#) (PN 10). Audit Scotland's Code of Audit Practice expects auditors to pay due regard to PN 10, i.e. to either apply the guidance or explain any non-application.

7. Part 1 of PN 10 sets out how auditors of public sector bodies apply auditing standards to their work on financial statements. The aim is to support consistency in the application of auditing standards while also recognising the specific legislative and regulatory frameworks that apply to the audits of public sector bodies. Part 2 provides guidance on the approach to the audit of regularity.

8. PN 10 was last revised in 2020 and it has been updated to take account of changes to standards and other developments in the auditing profession. The main changes are summarised in the following table:

Section	Pages	Summary of proposed revisions
ISQM (UK) 1	14 - 21	<p>There are revisions to existing material on ISQC 1 to reflect its replacement by ISQM (UK) 1 in respect of systems of quality management. Most of the proposed changes apply to contracted out audits and therefore do not apply in Scotland (which uses an appointments basis). Revisions that apply in Scotland are the following:</p> <ul style="list-style-type: none"> • Paragraph 1-23 has been added to advise that public sector auditors may determine that an engagement quality review is appropriate for bodies judged to have a high public profile. • Paragraph 1-27 has been added to explain that the individual assigned operational responsibility for the system of quality management in the national audit agencies may not be eligible for appointment as a statutory auditor under the Companies Act 2006. However, the national audit agencies comply with ISQM (UK) 1 by ensuring that the individuals have levels of experience, knowledge, influence and authority such that they are capable of fulfilling the role of engagement partner as defined in auditing standards. This is considered to be equivalent to the levels required to achieve eligibility for appointment as a statutory auditor.

Section	Pages	Summary of proposed revisions
ISA (UK) 240	21 - 23	<p>Paragraphs 1-40 to 1-44 have been added to provide guidance on the interaction between fraud and regularity responsibilities. This includes the following points:</p> <ul style="list-style-type: none"> • The public sector auditor’s responsibilities relating to fraud under ISA (UK) 240 are interrelated with the work that underpins the regularity opinion. However, the audit of regularity is not in itself sufficient to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. • The term ‘irregularities’ refers to instances of non-compliance with laws and regulations, including fraud. In the context of the regularity opinion, the term ‘irregular transactions’ refers to transactions not in accordance with the framework of authorities. • An irregular transaction may not be an irregularity (e.g. a breach of spending controls may not be unlawful). However, it is likely that transactions relating to an ‘irregularity’ would also be irregular transactions for the purpose of the regularity opinion. • Even where fraud does not result in misstatement of the financial statements, it may result in transactions that are not in accordance with the framework of authorities. The public sector auditor’s responsibilities under ISA (UK) 240 in respect of reporting fraud or suspected fraud extend to such cases.
ISA (UK) 315	27 - 30	<p>There are various revisions to reflect the July 2020 revision of ISA (UK) 315. Key changes include the following:</p> <ul style="list-style-type: none"> • Paragraph 1-73 explains that ownership of a public body may not have the same relevance as in the private sector because decisions related to the body may be made outside of the body as a result of political processes. Relevant matters include understanding the ability of the body to make unilateral decisions and the ability of other public sector bodies to control or influence it. • Paragraph 1-79 has been added to provide examples of inherent risk factors that may be particularly relevant to public bodies under the categories of inherent risk factors of complexity, subjectivity, change, uncertainty and management bias. • The guidance in paragraph 1-80 on the situation where public bodies are required to work to annual limits on resources has been extended. It explains that the risk of transactions being recorded in the wrong accounting period is increased due to an incentive for an entity to bring forward or delay expenditure or capital additions depending on its expected outturn against these limits. The risk of misclassification is also increased as there is an incentive to recognise items in a manner that increases outturn against limits that are underspent and reduces outturn against limits that are overspent.

Section	Pages	Summary of proposed revisions
ISA (UK) 320	31 - 33	<p>Existing guidance at paragraphs 1-87 and 1-88 has been expanded including providing further examples for determining materiality in the public sector. Key points include:</p> <ul style="list-style-type: none"> • Attention has been drawn to paragraph A20 of ISA (UK) 450 which highlights circumstances where misclassifications between balance sheet items that do not affect the performance statement may not be considered material. • In some public bodies, the value of gross assets and/or liabilities is much higher than the value of total expenditure and income. Where the audited body has custody of significant public assets held to meet a strategic policy objective, their service potential is an important contributor to the body's ability to deliver its services, which may make them an appropriate benchmark for setting materiality for the financial statements as a whole. • Example 5 has been added on setting materiality where the audited body's accounts include a high-value portfolio of assets and liabilities held in order to meet a strategic public policy objective, but its day-to-day decision making focuses on other account balances, classes of transactions and disclosures. An auditor may determine materiality for the financial statements as a whole using a benchmark based on the strategic asset or liability balances and also determine a materiality level to be applied to most or all other account balances (for example, working capital balances or actively-managed investments). The narrative confirms that no assertion is intended that such an approach is applicable to local authority audits.
ISA (UK) 570	43 - 51	<p>The following additional clarification has been added for bodies where the financial reporting framework provides for the adoption of the going concern basis due to the anticipated continuation of the provision of a service in the future:</p> <ul style="list-style-type: none"> • Paragraph 1-157 explains that the factor relevant to the auditor's work on going concern is whether the services will continue rather than the continued existence of the audited body itself. • Paragraph 1-163 clarifies that uncertainty regarding the future existence of the audited body does not create a material uncertainty, provided that this uncertainty does not also extend to the future delivery of the services.
ISA (UK) 600	52 - 54	<p>Paragraph 1-195 has been added to provide guidance on cases where those charged with governance is unclear. It advises that those charged with governance are the persons or organisations with responsibility for overseeing the financial reporting process relating to the combined financial statements. This group may have responsibility for overseeing the strategic direction and obligations related to the accountability of the sector to which the financial information included in the combined financial statements relates.</p>

Section	Pages	Summary of proposed revisions
Revised Ethical Standard	60 - 61	A new section has been added (paragraphs 1-229 to 1-235) on applying the revised ethical standard to the public sector. For example, paragraph 1-234 explains that it may not be possible to comply strictly with the engagement partner rotation requirements envisaged for listed entities. Nonetheless auditors establish policies and procedures to promote compliance with the spirit of the rotation requirements for significant public bodies.
Materiality for the audit of regularity	69 - 70	<p>Paragraph 2.34 has been added to provide examples of situations when auditors may determine a materiality threshold for the audit of regularity that is different to that determined for the financial statements as a whole. These include where:</p> <ul style="list-style-type: none"> • the audited body makes payments to individuals or other bodies that are of significantly greater public interest than the administrative functions of the body itself • the benchmark used to determine materiality for the financial statements as a whole has increased significantly but there remains user interest in the regularity of transactions at a more granular level • aspects of the audited body's framework of authorities and/or regulatory oversight regime indicate that quantitatively small non-compliance with the framework of authorities would be perceived more seriously than from assessing the amounts against materiality for the financial statements as a whole • the benchmark used to determine materiality for the financial statements as a whole is based on assets or liabilities and these amounts are out of proportion to the expenditure and income transactions that are subject to the regularity opinion.

Consultation on proposed changes to asset valuations

9. [HM Treasury](#) has issued a [consultation paper](#) on proposed changes to asset valuation bases for financial reporting purposes. The proposals flow from a thematic review that will affect public sector adaptations and interpretations of IAS 16 and IAS 38 in respect of the measurement of assets.

10. The consultation sets out specific proposals for change, balancing the needs of users and producers of the financial information, value for money considerations and the importance of timely financial reporting. Comments should be submitted to shikha.sharma@hmtreasury.gov.uk by Thursday 18 May 2023.

11. The valuation options are summarised in the following table:

Option	Method	Comments on proposals
1	Historical deemed cost model	<p>The transition value for historical cost would be assumed to equal the current value of the asset at the transition date (i.e. the deemed cost).</p> <p>The main benefits are that this option are:</p> <ul style="list-style-type: none"> • generally well understood and is less subjective than other options • easy to verify as a reliable measurement basis. <p>The main challenges are:</p> <ul style="list-style-type: none"> • the disparity between the carrying value under the historical cost model and current values can be significant • reported information will become less useful and relevant over time.
2	Fair value in accordance with IFRS	<p>The main benefits of this option are that fair value may provide more relevant information to users of financial statements, as it is determined from the market participants' perspective and considers the highest and best use of the asset.</p> <p>The main challenges are that:</p> <ul style="list-style-type: none"> • the constraints that typically apply with respect to disposing or changing the current use of assets in the public sector may lead this option to be less relevant • additional time and effort may be required to identify the most advantageous market, determine highest and best uses of the asset and apply appropriate valuation techniques.
3	Refinement of classes of assets with valuation method based on asset class	<p>This option considers a reassessment of distinct asset classes and the application of a separate measurement basis for each. This enables a differentiation of the valuation approach depending on the nature of the assets.</p> <p>The main benefits of this option are that it:</p> <ul style="list-style-type: none"> • may allow the application of a relevant and practically achievable accounting policy without undue cost and effort • enables the public sector to apply the optimum cost/benefit measurement basis for each type of asset class, depending on the nature and intended use of the asset. <p>The main challenges are:</p> <ul style="list-style-type: none"> • the different measurement bases may make aggregate measures less understandable • potential differences in judgement over the categorisation of individual assets.

Option	Method	Comments on proposals
4	Periodic reset to current valuation	<p>There are two approaches to achieving the aims of Option 4.</p> <ul style="list-style-type: none"> The first is a periodic reset of deemed cost to current valuation. This would be an adapted historical cost model, reframing the adaptation of IAS 16 to revalue deemed cost quinquennially. The second is to continue to apply current values but to introduce an adaptation prescribing that revaluations are only required quinquennially.

12. Treasury's preferred option is Option 3. The proposed measurement bases for the six asset categories used by the Government Financial Reporting Manual are summarised in the following table:

Category	Current measurement	Proposed measurement
Networked assets	<p>Depreciated replacement cost (central government)</p> <p>Historical cost (local government)</p>	Depreciated replacement cost for all sectors
Specialised assets	Depreciated replacement cost	Historical (deemed) cost
Non-specialised assets	Market value in existing use	Fair value

13. There are no changes proposed for heritage assets, social housing assets and surplus assets.

Guidance for auditors on cyber security

14. Professional Support has issued guidance to assist auditors consider risks related to cyber security at audited bodies as part of 2022/23 core annual audit activity. The guidance is available to auditors on [SharePoint*](#) and is also freely available from the Audit Scotland [website](#).

15. Cyber security is the practice of defending networks and information systems against malicious attacks designed to compromise access to these systems. This guidance prepared by Audit Scotland's Digital Audit team provides information on the current landscape of cyber resilience assessment frameworks within the Scottish public sector, and provides guidance on auditors' consideration of them.

16. The guidance notes that 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. Meeting these additional requirements is likely to be sufficient consideration of cyber security in 2022/23. This guidance is intended to assist auditors in that regard.

17. Auditors should refer to this guidance when meeting the requirements of ISA (UK) 315 in respect of IT risks and controls.

TGN on reporting on summary financial information in 2022/23

18. Professional Support has issued TGN/SFI/23 to provide auditors with guidance on examining and reporting on summary financial information for 2022/23. The TGN is available to auditors on [SharePoint*](#) and is also freely available from the Audit Scotland [website](#).

19. Summary financial information refers to a structured representation of financial information that is derived from, but contains less detail than, a full set of financial statements. In some cases, an audited body may be required by its sponsoring body to produce a separate annual report that includes summary financial information. In other cases, a body may choose to produce a report or other document that contains summary financial information as defined above.

20. In either event, auditors should express an opinion on the summary financial information's consistency with the audited financial statements.

TGN/sfi/23:

- provides guidance for auditors on the examination of the summary financial information
- sets out and explains the testing and reporting procedures that auditors should carry out (all summarised in the checklist at Appendix 1)
- provides a model form of report at Appendix 2.

Guidance on 2021/22 WGA returns for preparers

21. Treasury has issued guidance on preparing the 2021/22 Whole of Government Accounts (WGA) returns for [local government](#) and for [central government](#) bodies. WGA is prepared by Treasury and consolidates bodies in the UK that exercise functions of a public nature or are funded from public money. The process has been running significantly behind schedule over the last few years.

22. Data is collected for the 2021/22 WGA by bodies inputting information directly to the Online System for Central Accounting and Reporting (OSCAR II). Bodies are exempt from the WGA process if their gross expenditure, gross income, gross assets, and gross liabilities are below £30 million for both 2020/21 and 2021/22.

23. Paragraph 1.7.1 sets out the key dates for 2021/22 WGA as summarised in the following table:

Cycle	Return	Submission date
1	Unaudited	28 February 2023

Cycle	Return	Submission date	
2	Audited	31 March 2023	NB Auditors are not expected by Professional Support to meet that date if doing so would compromise audit quality.

24. A diagram at paragraph 4.2.2 of the guidance sets out the steps involved in the WGA submission process. The steps depend on whether the body is above the audit threshold. Paragraph 1.7.2 advises that the threshold for audit is breached if any of total assets (excluding property, plant and equipment), total liabilities (less pension liabilities), total income or total expenditure is above £2 billion.

25. Annex A provides a summary of the proforma tabs used to input data. Chapter 7 provides more detailed guidance on inputting data into the tabs. Paragraph 7.2.7 explains that the Audit Report is a view of all data submitted which can be shared with auditors. It may be appropriate to download the individual tabs instead, and also run the new primary financial statements report.

26. A key part of the WGA process is the elimination of transactions and balances between WGA bodies. Recording complete and accurate counterparty identifier (CPID) information is the only way in which transactions and balances between WGA bodies can be identified and eliminated. Paragraph 6.3.4 explains how bodies can run a Matches Analysis Tool which allows them to see 'live' published data from other bodies. Central government bodies are required to formally agree transaction streams and balances that are above £5 million with central government counterparties.

TGN on 2021/22 WGA returns for auditors

27. Professional Support has published a TGN to provide auditors with guidance on examining and reporting on the 2021/22 Whole of Government Accounts (WGA) returns of public bodies in Scotland. The TGN is provided with supporting material to auditors on [SharePoint*](#) and also on the [Audit Scotland website](#).

28. The National Audit Office (NAO) are the group auditor for WGA. Due to late running of the WGA process, the NAO were not able to issue their Group Audit Instructions until February 2023. This consequently delayed the publication of this TGN.

29. Testing and reporting procedures that auditors are required to undertake in respect of providing assurance to the NAO on 2021/22 WGA returns above the threshold is included in the TGN. The procedures are consistent with the NAO's Group Audit Instructions but tailored to Scottish bodies. Reporting procedures include the submission of an Assurance Statement in a form prescribed by NAO.

30. No examination is required for bodies below the threshold, although auditors are required to complete the first eight sections of the Assurance Statement (except for minor bodies) and submit it to the NAO.

31. Auditors should examine and report on the 2021/22 WGA returns of public bodies in Scotland in accordance with the TGN, and make the required submissions as soon as reasonably practicable.

Guidance for auditors on climate change

32. Professional Support has published guidance to assist auditors answer the questions set out in the [Guidance on Planning 2022/23 Annual Audits](#) (paragraph 80) on public bodies' arrangements for responding to climate change.

33. The guidance has been prepared by Audit Scotland's Climate Change central team. It is available to auditors on [SharePoint*](#) and is also freely available from the Audit Scotland [website](#).

34. Auditors should refer to the guidance and:

- complete the Response Sheet for each public body (except those that meet the definition of Less Complex Bodies) by the target audit completion date for each sector set out in the planning guidance
- report on climate change arrangements in their Annual Audit Reports based on the factual evidence gathered for the survey. No judgements on progress or quality of strategies are required at this stage.

6. Fraud and irregularities

This chapter contains a summary of fraud cases and other irregularities facilitated by weaknesses in internal control at audited bodies that have recently been reported by auditors to Professional Support.

Auditors should consider whether weaknesses in internal control which facilitated each fraud may exist in their bodies and take the appropriate action.

Expenditure

Grant payments

92. An unknown individual compromised a grant recipient's email account and committed bank mandate fraud. The council paid a grant of £12,300 to the fraudulent bank account.

Key features

After informing the grant applicant that their application was successful, the council received a request to change the grant recipient's bank account details.

The request came from the genuine grant recipient's email account and contained an attachment on headed paper requesting the change. The bank details were then changed.

The fraud was identified when the genuine grant recipient reported non receipt of the funds.

The fraud could have been prevented if the council has contacted the grant recipient to confirm the bank account changes.

The council have since issued bank mandate guidance for staff and existing controls have been strengthened.

Pension payments

93. A third party claimed over £6,600 from a widower's pension following their death.

Key features

A widower who was in receipt of a pension passed away. No death notification was provided to the council and therefore the pension payments continued.

A subsequent pension payment was returned by the bank. The council sent a letter to the widower's address requesting completion of a new bank mandate. A new bank mandate was emailed to the pensions team from the same email account used for the original bank mandate. The personal details provided, along with the signature, matched those on the original bank mandate and it was processed.

The fraud was identified as part of the National Fraud Initiative (NFI).

The fraud was possible as there was no consideration given to the potential risks associated with the new bank details. An internal audit investigation identified recommendations to help strengthen controls around changes to bank details.

Police Scotland identified the individual who submitted the fraudulent bank mandate and following a police caution, the individual repaid the amount in full.

16 March 2023

Alan Williamson
Chief Operating Officer
Edinburgh College

By email to Alan.Williamson@edinburghcollege.ac.uk

Dear Alan

Audit Fees

I refer to your email of 14 February 2023 about the increase in colleges' external audit fees for 2022-23, on behalf of the Further Education Sector's Finance Directors Group. This reply is also intended to cover issues raised during the group's meeting on 10 February, which my colleagues attended. I am sorry it has taken longer than we would have liked to reply to you.

Thank you for raising your concerns with us. We recognise that fee increases are unwelcome at any time, and that this increase comes at a clearly challenging time across the public sector. This letter aims to set out the context and a fuller explanation for the fee increases.

Overall, our budget and resourcing model is designed to ensure we are in position to provide high quality, relevant and independent public audit and assurance to public bodies, decision makers and the public. Maintained rigour and robustness of public audit are vital components of public service.

Audit market

A key factor in setting audit fees is the current audit market and the rising costs that ourselves and the firms we contract face in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover. This has increased costs throughout both the public and private sector audit markets.

Approximately 35% of financial audits undertaken for the Auditor General and the Accounts Commission are delivered by private sector firms. As you will know, we recently completed a procurement process to appoint auditors for the period 2022/23 to 2026/27. The procurement process was carried out under Open procedure and the Contract Notice published on the Public Contracts Scotland website in September 2021. An anonymised version of the Framework Agreement can be viewed on Audit Scotland's website at the following link - [Audit Scotland Framework Agreement](#).

This exercise confirmed the need to increase fees; the bids from firms were consistent in terms of costs (and thus fees) and were also consistent with our own in-house costing and benchmarking. We have seen this reflected in the wider audit market where private sector fees have increased significantly. By comparison across the UK, audit fees are typically increasing between 50% and 150%. We have done everything we can in Audit Scotland to mitigate the impact of increases on our audited bodies.

The current changes also reflect the absence of discounts from the private sector firms which we had previously benefitted from. For the last six-year appointments the firms offered favourable discounts to deliver audit work on behalf of Audit Scotland; however they can no longer sustain this.

Scope of audit

As above, the regulatory and industry requirements on audit have increased. Aligned to this, public audit has a wider scope than previously. We have consulted with yourselves and the rest of Scotland's public sector on the [Code of Audit Practice](#), the framework that sets out the scope of public audit and the responsibilities on external auditors for the public sector. Following that consultation and agreement on the new Code, those responsibilities and the areas that public audit covers have increased which has a resulting increase in the costs to meet the new requirements.

We have also seen the disruptions of the past few years result in additional work by auditors to ensure they are able to complete the audit of public bodies' accounts and declare them as fair and accurate. This is a crucial factor in providing assurance that public money is spent properly and that such spending is transparent and reported accurately. This extra work, and changes in the way audit is delivered following the pandemic, have again resulted in additional cost.

Audit Scotland

The fee increases come after a period where Audit Scotland has delivered a significant increase in public audit work whilst reducing our budget in real terms over several years. The total Scottish public sector spending that we audit has risen from £27 billion in the mid-2000s to now around £56 billion. The number of public bodies has also increased by a third, and the audit work now includes major new powers such as taxation and social security. At the same time, our budget has dropped by around 20% in real terms since 2005. Our budget represents 0.06% of the spending we audit.

Over recent years we have absorbed the additional costs and resource pressures as much as possible, and at times we have been able to provide public bodies with fee rebates. However, the scope of our work has increased significantly, in the number of accounts we audit, the significant and sharp rises in public spending, and the scope of audit itself. As with all public bodies, we are also dealing with the impacts of high inflation, both on our pay budget and on our operational costs, and we can no longer absorb additional costs on behalf of audited bodies.

Statutory requirements

The legislation which created both Audit Scotland and its functions, the Public Finance and Accountability Act (Scotland) 2000, sets some clear parameters and obligations on us regarding our costs and how we raise and manage revenue to cover those costs.

Firstly, in empowering Audit Scotland to charge fees that cover the exercise of our functions, the Act requires us to break even each financial year and prevents us from holding reserves. We are therefore unable to spread increased fees across years; for example, by carrying a deficit to cover the shortfall in fee income. We have been unable to hold onto any operating surplus in previous years to cover increased costs, and instead in previous years any surplus has been returned to public bodies via fee rebates and to the Scottish Consolidated Fund.

Secondly, the Act states that the costs for audit in each sector of public bodies must be met within "classes" which we interpret as sectors. We cannot spread costs or cross-subsidise

across sectors. This is why different sectors are seeing different levels of rises, specific to the factors affecting each.

Further education

In the further education sector, the average fee increase is 57.5%. This is a significant increase in percentage terms.

The main reasons for the increases are set out above and are most acute in the FE sector due to the size of the organisations and the baseline cost required to deliver a code compliant audit. To deliver an ISA and code of audit practice compliant audit we need to recover the cost of delivering a quality audit. The outcome of the cost of audit exercise, as part of the procurement process, highlighted that to deliver a compliant audit for bodies of a particular size (low and mid) now costs more based on the latest market conditions.

It is important to note that the percentage change is significant, but that the change is less significant in absolute terms. The smallest increase is £8,810 and the largest £25,990. The average fee for an FE organisation under the previous audit appointment was £26,989. Under the new appointment this has risen to £42,506. The minimum FE audit fee is £24,140 and the maximum audit fee is £71,190.

Additional fees

For each audit, Audit Scotland sets an expected fee which assumes that the audited body has well-functioning controls, an effective internal audit service, and an average risk profile. This generates a baseline audit fee estimate. Where an auditor identifies more than average risk or controls that are not operating well, then auditing standards require further external audit work. As you know, unforeseeable extra work can arise from year-to-year on diverse topics including actuarial revaluations of pensions, asset valuations and governance arrangements. This work is not included in the baseline audit fee and may lead to an increase in the audit fee for that year.

The framework contract provides auditors with the ability to negotiate with the audited body and agree an increase in the auditor remuneration part of the fee by up to 10 per cent, or 20 per cent for bodies which have an audit fee below £35,000. Should the auditor believe they need to increase the fee further, they must apply to Audit Scotland for permission to negotiate with the audited body, explaining the circumstances and estimated additional costs.

In closing, I hope this letter provides you with useful context for better understanding the fee increases. As I stated earlier, we recognise that the increases represent additional costs to the college sector. We have been focused on keeping the increases to a minimum and have done what we can to achieve this. However, we also have a duty to ensure we are able to deliver high quality public audit on behalf of the Auditor General and the Accounts Commission. Through this, we are able to provide assurance to public bodies, elected officials, decision-makers and ultimately the public, and to help public bodies improve the services they provide.

I would be grateful if you would circulate this letter to the Further Education Sector's Finance Directors Group for information.

Yours sincerely



Vicki Bibby, Chief Operating Officer