Dumfries and Galloway College

2023/24 Annual Audit Report to the Board and the Auditor General for Scotland

November 2024

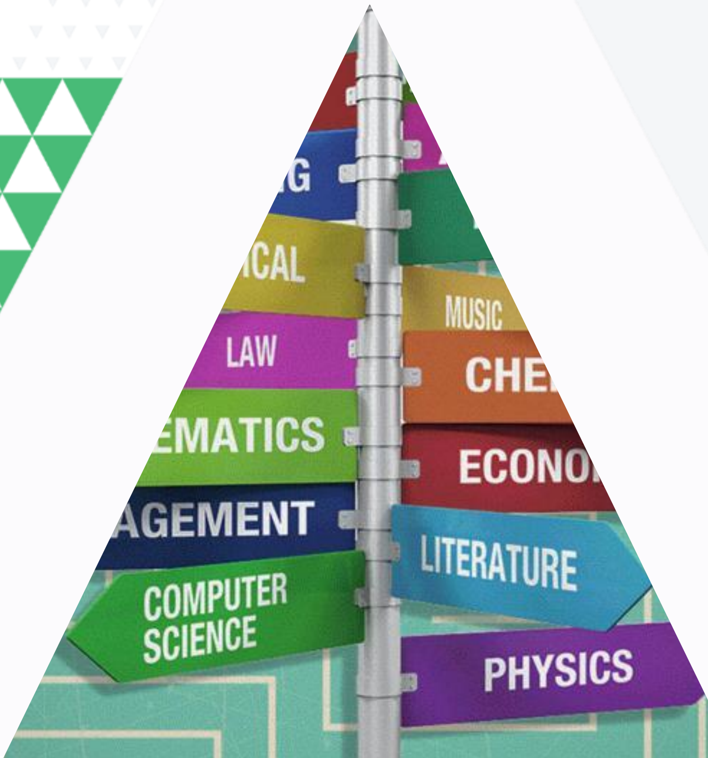


Table of Contents

Key messages	3
Introduction	10
Financial statements audit	12
The wider scope of public audit	34
Appendices	53

Key messages

Financial statements audit

Audit opinion	Our independent auditor’s report is unqualified in all regards.
Key audit findings	The College had reasonable administrative processes in place to prepare the annual accounts and the supporting working papers. We experienced some delays in the provision of a full set of annual accounts which we acknowledge was due to circumstances outwith the College’s control. However, we have raised recommendations to ensure these are received on a timely basis going forward. We have obtained adequate evidence in relation to the key audit risks identified in our audit plan. The accounting policies used to prepare the financial statements are considered appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately. **Job evaluation accounting treatment** In previous years, an estimate of the accrued cost of the job evaluation exercise for middle management and support staff was accounted for as a liability in the college’s accounts. The related funding from the SFC was treated as accrued income. There was therefore nil net impact on the accounts. During 2023/24, the college was notified that the administration of the funding had been transferred from SFC to Scottish Government. This meant that the funding was no longer ring-fenced and could not be accounted for as accrued income. The original SFC 2023-24 Accounts Direction also required colleges to treat the cost as a ‘contingent liability’, rather than an actual liability. Azets and other auditors across the sector questioned this treatment of the cost as it appeared contrary to accounting standards.

Key audit findings	As a result, the SFC prepared a revised Accounts Direction requiring the cost to continue to be recognised as a liability, but the accrued income to be derecognised. The College followed that guidance and revised its accounts accordingly. The impact of derecognising the funding for the job evaluation exercise has been to increase the deficit for the year by £1.198million. A similar impact will have been reflected in most if not all Scottish college accounts.
Audit adjustments	Two audit adjustments have been identified in respect of revising of accounting treatment for job evaluation in line with the revised Accounts Direction. No unadjusted misstatements were identified within the accounts. We also identified some minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of financial statements. Details of the adjusted errors and disclosure and presentational adjustments are noted at Appendix 2.
Accounting systems and internal controls	We applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the College's processes and internal controls relating to the financial reporting process. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where we identify any control weaknesses, we include these in this report. We identified no significant weaknesses in accounting and internal control systems during our audit.

The wider scope of public audit

Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	**Auditor judgement** Risks exist to the achievement of operational objectives
	The College has demonstrated overall sound financial management but faces unprecedented and continuing challenges resulting from the current levels of budget pressure, inflation (particularly in relation to utilities) and related funding levels from SFC. The College reports an operating deficit of £2.151million for the year end 31 July 2024. This is a significant increase on prior year due to the de-recognition of the job evaluation funding as required by the SFC Accounts Direction. The College reported a decreasing cash balance of £1.120milllion at 31 July 2024 however, this position is primarily due to one off specific payouts towards the year end including the support staff pay award and back pay. We will continue to monitor the cash position of the College and the financial flexibility which this allows the College to have in periods of significant financial challenge.

Financial Sustainability	Auditor judgement
Financial Sustainability Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services and the way in which they should be delivered.	**Auditor judgement** Significant unmitigated risks affect achievement of corporate objectives The College has appropriate arrangements in place to prepare short and medium-term financial plans, but it continues to face significant challenges, operating within tight financial parameters and with cognisance of the national economic outlook. It has proactive measures in place to recognise, understand and scrutinise the challenges. The College submitted its Financial Forecast Return (FFR) which forecasts operating deficits and adjusted operating surplus positions for 2024/25 to 2026/27. The College has commenced several key elements of work to look at improving the financial sustainability of the College including establishment of a working relationship with University of the West of Scotland and development of a three phased approach to workforce planning. There remains an external risk to the College's financial sustainability if the expected benefits from these initiatives are not realised to the extent which they are currently forecasted. The College will continue to face challenges over the next few years in achieving a balanced financial position due to pressures on the College sector. The College's ability to develop and maintain its core services in a sustainable manner remains at significant risk from 2024/25 and beyond, and this requires continuing careful management and oversight.

	Auditor judgement Effective and appropriate arrangements are in place
Vision, Leadership and Governance Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the College continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge. Our assessment has been informed by a review of the corporate governance arrangements in place and the information provided to the Board and Committees. The College's focus for 2023/24 and to date has been on the development of the new phase of its strategy through Mission 2030 which is expected to launch in the early months of 2025. We are satisfied that appropriate arrangements are in place to effectively develop and implement Mission 2030.

Use of Resources to Improve Outcomes Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.	**Auditor judgement** Risks exist to achievement of operational objectives
	The College has appropriate performance management processes in place that support monitoring and scrutinising performance. The College demonstrated an improvement in student success and outcomes compared to 2022/23 performance for all levels and mode of study. This was also reflected in the findings from Education Scotland's 2023/24 inspection. As described in the Financial Sustainability section, there is a risk that the scale of savings required to enable the College to achieve a financially sustainable position, alongside the significant financial pressures that the College is facing, may impact on its ability to deliver curriculum activity or support students and staff in future years. This also presents a risk of deterioration in the College's performance and it is important that the College continues to monitor and assess its ability to offer quality provision of education.

Definition

We use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope areas. The text provides a guide to the key criteria we use in the assessment, although not all of the criteria may exist in every case.

There is a fundamental absence or failure of arrangements

There is no evidence to support necessary improvement

Substantial unmitigated risks affect achievement of corporate objectives.

Arrangements are inadequate or ineffective

Pace and depth of improvement is slow / needs to extend further

Significant unmitigated risks affect the achievement of corporate objectives

No major weaknesses in arrangements but scope for improvement exists

Pace and depth of improvement are adequate

Risks exist to the achievement of operational objectives

Effective and appropriate arrangements are in place

Pace and depth of improvement are effective

Risks to the achievement of objectives are managed

Introduction

The annual audit comprises the audit of the financial statements and other reports within the annual report and accounts, and the wider-scope audit responsibilities set out in Audit Scotland's Code of Audit Practice.

We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit Committee at the outset of our audit.

Responsibilities

The College is responsible for preparing an annual report and accounts which show a true and fair view of the results for the year and position at the year end, and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on, the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent, and our objectivity has not been compromised in any way.

We set out in Appendix 1 our assessment and confirmation of independence.

Adding value

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

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

Openness and transparency

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

Financial statements audit

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	We conduct our audit in accordance with applicable law and International Standards on Auditing. Our findings / conclusions to inform our opinion are set out in this section of our annual report.	The annual report and accounts was considered by the Audit Committee on 28 November 2024 and approved by the Board on 9 December 2024. Our independent auditor's report is unqualified in all regards.
Going concern basis of accounting	When assessing whether the going concern basis of accounting is appropriate, the anticipated provision of services is more relevant to the assessment than the continued existence of a particular public body. We assess whether there are plans to discontinue or privatise the College's functions. Our wider scope audit work considers the financial sustainability of the College.	We reviewed the financial forecasts for 2024/25. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the College will have continued provision of service for at least 12 months from the signing date. Our audit opinion is therefore unqualified in this respect.
Regularity of income and expenditure	We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.	We did not identify any instances of irregular activity. In our opinion, in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and

Opinion	Basis for opinion	Conclusions
		guidance issued by the Scottish Ministers.
Opinions prescribed by the Auditor General for Scotland: • The audited part of the Remuneration and Staff Report • Performance Report • Governance Statement	We plan and perform audit procedures to gain assurance that the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement are prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers.	The annual report contains no material misstatements or inconsistencies with the financial statements. We have concluded that: • the audited parts of the Remuneration and Staff Report have been properly prepared. • the information given in the performance report is consistent with the financial statements and has been properly prepared. • the information given in the Governance Statement is consistent with the financial statements and our understanding of the organisation gained through our audit.

Opinion	Basis for opinion	Conclusions
Matters reported by exception	We are required to report on whether: • adequate accounting records have not been kept; or • the financial statements and the audited parts of the Remuneration and Staff Report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit; or • there has been a failure to achieve a prescribed financial objective.	We have no matters to report.

An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit Committee in June 2024. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk (the significant risk areas). Planning is a continuous process, and our audit plan is subject to review during the course of the audit to take account of developments that arise.

In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. This includes:

- An evaluation of the College's internal control environment, including the IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including procedures outlined in this report in relation to our key audit risks.

Quality indicators

We have applied a suite of quality indicators to assess the reliability of the College's financial reporting and response to the audit.

Metric	Grading (Mature / developing / significant improvement required)	Commentary
Quality and timeliness of draft financial statements	Developing	We commenced our audit on 30 September however, a full set of annual accounts (including the Performance Report, Governance Statement and Remuneration and Staff Report) was not received until 4 weeks into the audit process. We acknowledge that this was due to circumstances outwith the College's control however, we have raised recommendations to ensure these are received on a timely basis going forward.
Quality of working papers provided and adherence to timetable	Mature	We received working papers of a good standard in line with our audit timetable. Further information was provided promptly where required.
Timing and quality of key accounting judgements	Mature	We did not identify any issues with the timing and quality of key accounting judgements.
Access to finance team and other key personnel	Mature	Finance team were available throughout audit and responded quickly to queries raised by audit team.
Quality and timeliness of the	Developing	As noted above, a full set of annual accounts including the Performance Report, Governance Statement and Remuneration and Staff Report) was not received until 4 weeks into the

Metric	Grading (Mature / developing / significant improvement required)	Commentary
• audited part of the Remuneration and Staff Report • Performance Report • Governance Statement As well as the quality and timeliness of supporting working papers for those statements.		audit process. We acknowledge that this was due to circumstances outwith the College's control however, we have raised recommendations to ensure these are received on a timely basis going forward. We did not identify any issues with the quality of the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement.
Volume and magnitude of identified errors	Mature	We identified two adjusted misstatements. This position has increased compared to the previous year however, the adjusted misstatements solely relate to revisions made to the Accounts Direction.

Significant risk areas and key audit matters

Significant risks are defined by auditing standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. Audit procedures are designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we considered the significant risks for the audit that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team (the 'Key Audit Matters'), as detailed in the tables below.

Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures.

Our opinion on the annual report and accounts is not modified with respect to any of the risks described below.

The table below summarises each significant risk. Detail behind each risk and the work undertaken is set out on the following pages.

Risk area	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
Management override of controls	Yes	Assess design & implementation	Low	No adjustment.
Fraud in revenue recognition	Yes	Assess design & implementation	Low	No adjustment.
Fraud in non-pay expenditure recognition	Yes	Assess design & implementation	Low	No adjustment.
Valuation of land and buildings	No	Assess design & implementation	High	No adjustment and one recommendation.
Pension asset / liability	No	Assess design & implementation	High	No adjustment.

Significant risks at the financial statement level

These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Risk area	Management override of controls
Significant risk description	Management of any entity is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk will vary from entity to entity, this risk is nevertheless present in all entities. Due to the

Risk area	Management override of controls
	unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk on all audits. This was considered to be a significant risk and Key Audit Matter for the audit. **Inherent risk of material misstatement:** Very High
How the scope of our audit responded to the significant risk	**Key judgement** There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions. **Audit procedures** • Documented our understanding of the journals posting process and evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determined criteria for selecting high risk and / or unusual journals. • Tested high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness, corroboration and ensured approval has been undertaken in line with the College's journals policy. • Gained an understanding of the accounting estimates and critical judgements made by management. We challenged key assumptions and considered the reasonableness and indicators of management bias which could result in material misstatement due to fraud. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Key observations	We have not identified any indication of management override of controls in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

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

Key risk area	Fraud in revenue recognition
Significant risk description	Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed, inherent risk on every audit unless it can be rebutted. The presumption is that the College could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position. In respect of Scottish Funding Council (SFC) grant funding, however, we did not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate revenue of this nature. The risk of fraud in relation to revenue recognition was however present in all other income streams. This was considered to be a significant risk and Key Audit Matter for the audit. **Inherent risk of material misstatement:** Revenue (occurrence and accuracy): High Receivables (existence): High

Key risk area	Fraud in revenue recognition
How the scope of our audit responded to the significant risk	**Key judgements** Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. **Audit procedures** • Documented our understanding of College's systems for income to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements. • Evaluated the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems. • Obtained evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Substantively tested material income streams using analytical procedures and sample testing of transactions recognised for the year.
Key observations	At the planning stage of the audit we concluded that the revenue recognition risk was present in all revenue streams except for grant funding received from the Scottish Funding Council. Our conclusion remained the same throughout the audit. Based on the work performed, we gained reasonable assurance on the occurrence of income and existence of receivables and we are satisfied that these are fairly stated in the financial statements.

Key risk area	Fraud in non-pay expenditure recognition
Significant risk description	As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. This was considered to be a significant risk and Key Audit Matter for the audit. **Inherent risk of material misstatement:** Non-pay expenditure (completeness): High Accruals (completeness): High
How the scope of our audit responded to the significant risk	**Key judgements** Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals and expenditure around the year end. **Audit procedures** • Documented our understanding of the College's systems for expenditure to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements. • Evaluated the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems. • Obtained evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Substantively tested material expenditure streams using analytical procedures and sample testing of transactions during the year. • Reviewed accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Key risk area	Fraud in non-pay expenditure recognition
Key observations	Based on the audit work performed, we have gained reasonable assurance on the completeness of expenditure and accruals and we are satisfied that there are fairly stated in the financial statements.

Key risk area	**Valuation of land and buildings (key accounting estimate)**
Significant risk description	The College held land and buildings with a net book value of £44.132 million at 31 July 2023, with external valuations last undertaken as at 31 July 2023. There is a significant degree of subjectivity in the measurement and valuation of land and buildings. This subjectivity and the material nature of the College's asset base represents an increased risk of misstatement in the financial statements. **Inherent risk of material misstatement:** Land & Buildings (valuation): Very High
How the scope of our audit responded to the significant risk	**Key judgements** Colleges are required to ensure fixed assets are held at a carrying amount that does not differ materially from the current value at 31 July, alongside appropriate additional disclosures. **Audit procedures** • Evaluated management processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Considered the basis on which the valuation was completed and challenged the key assumptions applied. • Tested the information used by the valuer to ensure it is complete and consistent with our understanding. If there had been any specific changes to the assets in the year, we ensured these have been communicated to the valuer. • For unusual or unexpected valuation movements, tested the information used by the valuer to ensure it is complete and consistent with our understanding.

Key risk area	Valuation of land and buildings (key accounting estimate)
	• Ensured revaluations made during the year had been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct.
Key observations	The College instructed their external valuers (DM Hall) to carry out a desktop valuation of its estate as at 31 July 2024. We have gained assurance that the carrying value of the College's estate in the financial statements is in line with the reports received from DM Hall. However, management did experience significant delays in receiving the reports from the valuer. We evaluated the competence, objectivity and capability of management's expert in line with the requirements of ISA (UK) 500 and concluded that use of the expert was appropriate. We confirmed that the basis of valuation for assets is appropriate based on the usage and reviewed the reasonableness of valuation assumptions applied. Overall, the valuation movements were in line with supporting evidence. We reviewed the key estimates and judgements that management made in respect to the valuation of land and buildings for any indication of bias and assessed whether the judgements used by management are reasonable. We concluded that estimates and judgements are balanced. Our audit work has not identified any issues in respect of the valuation of land and buildings as at 31 July 2024.

Key risk area	Pension asset / liability (key accounting estimate)
Significant risk description	An actuarial estimate of the pension fund asset/liability is calculated on an annual basis and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation, and mortality rates) can have a material impact on the pension asset/liability. There is a risk that the assumptions used are not appropriate. **Inherent risk of material misstatement:** Pensions (valuation): High
How the scope of our audit responded to the significant risk	**Key judgements** A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability. **Audit procedures** • Reviewed the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. • Reviewed the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. • Agreed the disclosures in the financial statements to information provided by the actuary. • Considered the competence, capability, and objectiveness of the management expert in line with ISA (UK) 500 Audit Evidence.

Key risk area	**Pension asset / liability (key accounting estimate)**
	• Evaluated whether any asset ceiling was appropriately considered when determining the value of any pension asset included in the financial statements.
Key observations	We are satisfied that we have obtained reasonable assurance over the disclosures in the financial statements relating to the reported financial position. Accounting standards require the College to review the pension surplus and only recognise the lower of the surplus or an ‘asset ceiling’. The pension asset ceiling for this year capped the asset value to nil. We reviewed the reasonableness of those assumptions used in the calculation against other college actuaries and other observable data, with no issues identified. In addition, we reviewed the information in the actuarial report for completeness and accuracy against data sources including pension fund data. We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 - *Audit Evidence*. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.

Materiality

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

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

Our initial assessment of materiality for the College's financial statements was £325,000. On receipt of the 2023/24 unaudited annual accounts, we reassessed materiality and updated this to £318,000. We consider that our updated assessment has remained appropriate throughout our audit.

	College **£**
Overall materiality for the financial statements	318,000
Performance materiality (75% of materiality)	238,500
Trivial threshold (5% of materiality)	15,900

Materiality	Our assessment is made with reference to the College's gross expenditure. We consider this to be the principal consideration for users of the annual accounts when assessing financial performance. Our assessment of materiality equates to approximately 2% of gross expenditure as disclosed in the 2023/24 unaudited annual report and accounts. In performing our audit, we apply a lower level of materiality to the audit of the Remuneration & Staff Report and Related Parties disclosures. For the Remuneration & Staff Report we consider any errors which result in a movement between the relevant bandings on the disclosure table to be material. For Related Party transactions, in line with the standards, we consider the significance of the transaction with regard to both the College and the Counter party, the smaller of which drives materiality considerations on a transaction by transaction basis.

Performance materiality	Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
Trivial misstatements	Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Audit differences

Audit differences, both adjusted and unadjusted, we identified during the audit are detailed in Appendix 2.

We also identified disclosure and presentational adjustments during our audit, which have been reflected in the final set of financial statements and are disclosed in Appendix 2.

Internal controls

As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these at Appendix 3. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Follow up of prior year recommendations

We followed up on progress in implementing actions raised in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 4.

Other communications

Other areas of focus

Area of focus	Audit findings and conclusion
Significant matters on which there was disagreement with management	There were no significant matters on which there was disagreement with management.
Significant management judgements which required additional audit work and / or where there was disagreement over the judgement and / or where the judgement is significant enough that we are required to report it to those charged with governance before they consider their approval of the accounts	We have identified one significant judgment made by management during the audit. We have liaised with management and Audit Scotland on those throughout the audit to discuss both issues. The judgement is also relevant to the College sector across Scotland. **Job evaluation provision** In previous years, an estimate of the accrued cost of the job evaluation exercise for middle management and support staff was accounted for as a liability in the college's accounts. The related funding was top-sliced from the Scottish Government allocation to the sector and retained by SFC on behalf of colleges. Each college treated the cost as accrued expenditure and the funding as accrued income - effectively with nil net impact on their accounts. During 2023-24, the College was notified that administration of the funding had been transferred from SFC to Scottish Government. This meant that the funding was no longer ring-fenced and could not be accounted for as accrued income. The original SFC 2023-24 Accounts Direction also required colleges to treat the cost as a 'contingent liability'. Contingent liabilities are not accounted for as actual liabilities as they are considered too uncertain. This would remove both the cost and the related funding from each

Area of focus	Audit findings and conclusion
	college's accounts, still with a nil net impact. During the audit, we liaised with Audit Scotland and other college auditors to assess this treatment. There was common agreement amongst the auditors that there was insufficient evidence that the accrued cost of the job evaluation exercise was so uncertain that it should no longer be considered a liability. The guidance and rationale within the Accounts Direction were also contradictory and unclear. The matter was raised by the SFC with Scottish Government to seek further clarification on the treatment and classification of the job evaluation cost and related income. Following this, the SFC revised its original Accounts Direction, requiring colleges to: • continue to recognise the liability, as a provision; • derecognise any related accrued income; • potentially process these changes as prior year adjustments [this implied there was a material error in the prior year accounts as the change in administration of the funding from SFC to SG occurred during 2022/23 and should therefore have been reflected in the 2022/23 accounts]; and • include the reversal of income as a reconciling item in the Adjusted Operating Profit table in the Performance Report. The College has updated the accounts to recognise the liability as a provision,

Area of focus	Audit findings and conclusion
	derecognise the accrued income and include the impact in the Adjusted Operating Position disclosure. The impact of derecognising the accrued income has been to increase the deficit for the year by £1.198million. The College has not processed these changes as prior year adjustments as the College has interpreted the guidance in the Accounts Direction to apply only where the college was aware of the change in administration of the funding prior to approving the 2022/23 accounts. The College was not notified of this change until March 2024 and has therefore taken the view that there was no material error in the 2022/23 accounts and a prior year adjustment is therefore not appropriate. We concur with this view and it is consistent with auditor guidance issued by Audit Scotland.
Prior year adjustments identified	There were no prior year adjustments identified.
Concerns identified in the following: • Consultation by management with other accountants on accounting or auditing matters • Matters significant to the oversight of the financial reporting process • Adjustments / transactions identified as having been made to meet an agreed system position / target	No concerns were identified in relation to these areas.

Accounting policies

The accounting policies used in preparing the financial statements are unchanged from the previous year.

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the College.

The accounting policies, which are disclosed in the financial statements, are in line with the FE SORP and are considered appropriate.

There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

Key judgements and estimates

As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements.

Consideration was given to asset valuations, impairment, depreciation and amortisation rates, pension liability, provisions and accruals. Other than the pension liability and asset valuation we have not determined the other accounting estimates to be significant. See the section above on “Significant risks at the assertion level for classes of transaction, account balances and disclosures” for detailed findings in relation to key accounting estimates.

We reviewed the key estimates and judgements that management made in respect to the identified key accounting estimates for indication of bias and assessed whether the judgements used by management are reasonable. Overall, we concluded that those key accounting estimates were balanced and appropriate.

Fraud and suspected fraud

We have previously discussed the risk of fraud with management and the Audit Committee. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

As part of our standard audit testing, we have reviewed the laws and regulations impacting the College. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations.

Written representations

We issued the final letter of representation to the Board to sign at the same time as the financial statements are approved.

Related parties

We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

All requested third party confirmations have been received.

The wider scope of public audit

	Auditor judgement Risks exist to the achievement of operational objectives
Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	The College has demonstrated overall sound financial management but faces unprecedented and continuing challenges resulting from the current levels of budget pressure, inflation (particularly in relation to utilities) and related funding levels from SFC. The College reports an operating deficit of £2.151million for the year end 31 July 2024. This is a significant increase on prior year due to the de-recognition of the job evaluation funding as required by the SFC Accounts Direction. The College reported a decreasing cash balance of £1.120milllion at 31 July 2024 however, this position is primarily due to one off specific payouts towards the year end including the support staff pay award and back pay. We will continue to monitor the cash position of the College and the financial flexibility which this allows the College to have in periods of significant financial challenge.

	Auditor judgement Significant unmitigated risks affect achievement of corporate objectives
Financial Sustainability Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services and the way in which they should be delivered.	The College has appropriate arrangements in place to prepare short and medium-term financial plans, but it continues to face significant challenges, operating within tight financial parameters and with cognisance of the national economic outlook. It has proactive measures in place to recognise, understand and scrutinise the challenges. The College submitted its Financial Forecast Return (FFR) which forecasts operating deficits and adjusted operating surplus positions for 2024/25 to 2026/27. The College has commenced several key elements of work to look at improving the financial sustainability of the College including establishment of a working relationship with University of the West of Scotland and development of a three phased approach to workforce planning. There remains an external risk to the College's financial sustainability if the expected benefits from these initiatives are not realised to the extent which they are currently forecasted. The College will continue to face challenges over the next few years in achieving a balanced financial position due to pressures on the College sector. The College's ability to develop and maintain its core services in a sustainable manner remains at significant risk from 2024/25 and beyond, and this requires continuing careful management and oversight.

	Auditor judgement Effective and appropriate arrangements are in place
Vision, Leadership and Governance Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the College continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge. Our assessment has been informed by a review of the corporate governance arrangements in place and the information provided to the Board and Committees. The College's focus for 2023/24 and to date has been on the development of the new phase of its strategy through Mission 2030 which is expected to launch in the early months of 2025. We are satisfied that appropriate arrangements are in place to effectively develop and implement Mission 2030.

	Auditor judgement Risks exist to the achievement of operational objectives
Use of Resources to Improve Outcomes Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.	The College has appropriate performance management processes in place that support monitoring and scrutinising performance. The College demonstrated an improvement in student success and outcomes compared to 2022/23 performance for all levels and mode of study. This was also reflected in the findings from Education Scotland's 2023/24 inspection. As described in the Financial Sustainability section, there is a risk that the scale of savings required to enable the College to achieve a financially sustainable position, alongside the significant financial pressures that the College is facing, may impact on its ability to deliver curriculum activity or support students and staff in future years. This also presents a risk of deterioration in the College's performance and it is important that the College continues to monitor and assess its ability to offer quality provision of education.

Financial management

Financial performance 2023/24

The College reported an operating deficit of £2.151million for the year ended 31 July 2024, equating to 16% of the College's total income. This is approximately twice the operating deficit recognised last year of £0.999million and reflects de-recognising of funding in relation to the job evaluation cost in the year. This derecognition was caused by the SFC Accounts Direction revision which required the cost to continue to be recognised as a provision, but not any related income or funding. In previous years income was recognised on the basis that the SFC kept separate reserves specifically for that purpose. During 2022/23 the administration of these reserves was transferred to the Scottish Government which does not maintain earmarked reserves for that purpose. The Colleges in Scotland were informed that the Scottish Government is committed to fund these costs once the job evaluation process concludes.

Adjusting for non-cash transactions per SFC directions, such as depreciation (£0.865million), job evaluation costs not matched by revenue (£1.198million and the net charge arising from the pension valuation (£0.095million), the College shows an "adjusted" operating surplus of £0.007million (2022/23: surplus of £0.007million). This represents a small decline to in year performance when compared to the initial budget "adjusted" surplus of c.£0.032million primarily due to:

- The budget was based on a pay award of 3.5%. The offer made to all staff was £1,500 per FTE, which is an increase on the forecasted expenditure.
- Additional agency staffing costs were incurred to backfill vacancies for course delivery and assessments.
- Utility costs were higher than budgeted for the full year due to increased prices and levels of inflation.

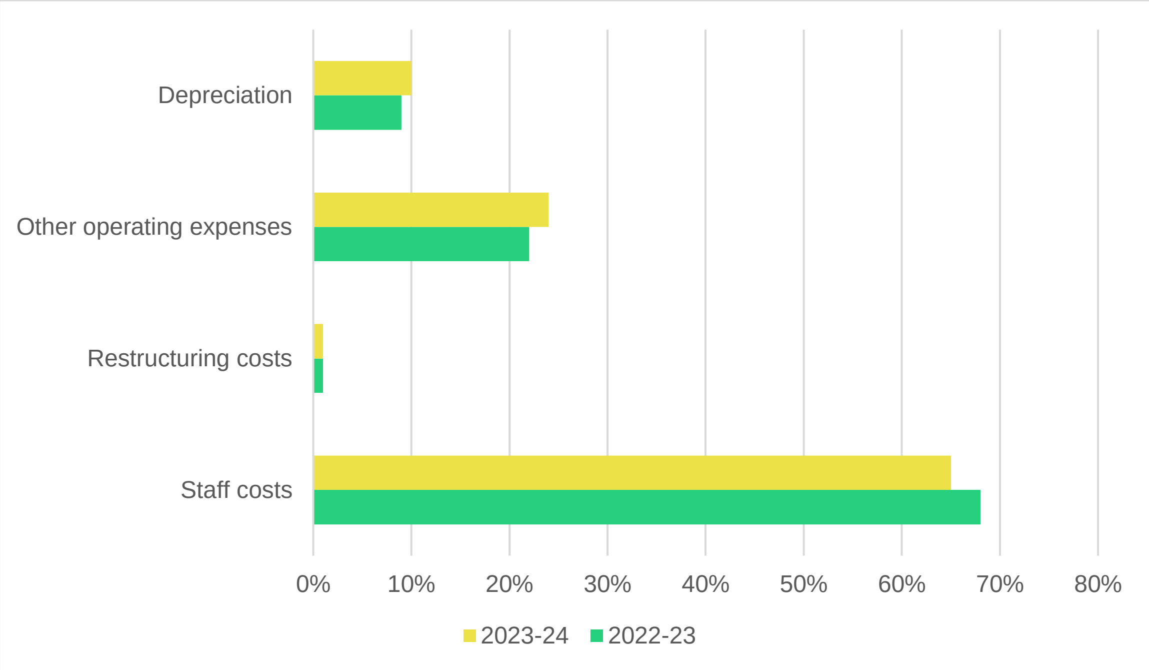
The College's main source of income continues to be grant funding from the SFC (82% of total income in 2023/24). This position is similar to that of the previous year due to income received from additional ring fenced grants including Counsellors and Mental Health and Wellbeing.

As detailed in exhibit 1, staff costs continue to be the highest area of spend for the College accounting for 65% (68% in 2022/23) of total expenditure. When compared to the previous year these costs decreased by 6% mainly reflecting savings achieved from severance scheme.

The cost of voluntary severance in the year was lower than last year at £0.153million (£0.186million in 2022/23) and 7 members of staff took advantage of the scheme in 2023/24. This represented around 4% of total headcount. The College's voluntary severance programme is expected to continue into future years as a key way to achieve savings in expenditure. Further detail is included in the financial sustainability section on key mechanisms that the College is developing to achieve savings in staff costs.

A key area of financial uncertainty to the College was the impact of ongoing pay negotiations. At the time of writing, 2022/23 and 2023/24 pay awards have now been agreed. The Support staff pay award was agreed in June 2024 and teaching unions agreed a revised pay offer in September 2024.

Exhibit 1 Key expenditure items 2 years comparison



Source: Annual Accounts 2023/24 and subsequent analysis

Cash position

The College is required to manage its cash position in line with requirement of maintaining a break-even position and having cash for working capital purposes.

Operating cash held by the College was £1.120million at year end (representing 30 cash days). This represents a significant decrease from the cash position at 31 July 2023 of £2.053million (and 50 cash days). This position is primarily due to:

- Paying out the support staff pay award and back pay;
- Repayment of the 2022/23 requested cash advance of £0.450million from SFC; and
- Increased student funding payments for cost of living support.

Audit Scotland's 'Scotland's Colleges 2024' report noted increasing concerns around cash balances and the liquidity of the College sector. We are satisfied that the decrease in the College's cash balance at 31 July 2024 compared to the previous year was due to one off specific payouts as identified above. However, we will continue to monitor the cash position of the College and the financial flexibility which this allows the College to have in periods of significant financial challenge.

Systems of internal control

We have evaluated the College's key financial systems and internal financial controls to ensure internal controls are operating effectively to safeguard public assets.

We did not identify any significant weaknesses in the College's accounting and internal control systems during our audit.

Prevention and detection of fraud and irregularity

Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found various elements of the College's arrangements for the prevention and detection of fraud and other irregularities to be appropriate.

Regular updates on fraud related matters (including Counter Fraud Services updates and the National Fraud Initiative) are presented to the Audit Committee.

National fraud initiative

The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error. The College has engaged well with previous NFI exercises and has demonstrated that it has appropriate arrangements in respect to NFI.

The most recent NFI is currently ongoing where participating bodies are due to submit datasets for matching in October 2024 and November 2024 and will receive matches for investigation in December 2024 and January 2025. We are satisfied that the College is on track to meet the deadline for submitting datasets for matching.

Financial sustainability

Significant audit risk

Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities:

Financial sustainability (extract from 2023/24 External Audit Plan)
The College continues to face significant financial challenges, operating within tight financial parameters, and activity continues to plan the measures required to ensure the College is in a long term sustainable position. *The College submitted its Financial Forecast Return (FFR) which forecasted operating deficits and adjusted operating surplus positions for in 2023/24 to 2025/26. The College has commenced several key elements of work to look at the effectiveness and efficiencies of the services to identify areas of further savings over the short and medium term. This has included approval of business cases which aim to support financial sustainability by reducing manual processing, investment in digital learning, service re-design and increasing commercial income developments.* *The College will continue to face challenges over the next few years in achieving a balanced financial position due to pressures on the College sector including the projected "flat cash" SFC funding positions and the unsettled 2022/23 and 2023/24 pay awards. The College's ability to develop and maintain its core services in a sustainable manner remains a significant risk which requires continuing careful management and oversight.*
Our detailed findings on the College's arrangements for achieving long term financial sustainability are set out below.

2024/25 Financial Plan

The Board approved the 2024/25 budget in June 2024, in line with agreed timescales.

Due to the significant financial pressures facing the College sector including pay and non-pay inflationary pressures and flat cash funding, the College developed several budget scenarios as part of the 2024/25 budget setting process. The financial scenarios considered were higher pay inflation, lower pay inflation, increase in SFC funding 2028/29 and realistic. The assumptions within the realistic scenario were applied to the budget approved by the Board.

The 2024/25 budget projects an operating deficit of £0.861million. Adjusting for non-cash items such as notional interest and depreciation gives a forecast adjusted operating surplus of £0.004million.

The SFC published final colleges funding allocations in May 2024. The 2024/25 SFC main grant allocation for the College is £10.808million based on flat cash. In 2023/24, the SFC funding allocations saw a 10% in education delivery which translated into the same reduction for the College's credit target. In 2024/25 the SFC has kept College credit targets at the same level to allow for a period of stability to the sector. The College's credit target for 2024/25 therefore remains at 27,800.

Budgeted income of £15.224million is 10% higher than 2023/24 actual income. This is due to ongoing work within the College to focus on growing commercial income streams including through short courses and work-based learning. This is to mitigate the impact of the College's flat cash budget settlement.

Budgeted expenditure of £16.085million is broadly in line with the 2023/24 actual expenditure. Increases in staff costs have been offset by savings elsewhere across the budget.

Staff Costs

Staff costs continue to be a significant challenge for the College and the 2023-24 to 2026-27 FFR has been prepared based on reduction in staffing numbers in 2024/25, as detailed in exhibit 2. This represents around 2% of 2023/24 total headcount.

Exhibit 2: 2024/25 Annual Staffing Efficiencies

	2024/25 FTE
FTE Staff reduction- vacancy management	2
FTE Staff reduction- voluntary severance	2

	2024/25 FTE
FTE Staff reduction- compulsory redundancy	0
Total Staff reduction	**4**

Source: 2023-24 to 2026-27 FFR - June 2024

As detailed above, the College's voluntary severance scheme is expected to continue into 2024/25 as a key way to achieve savings in staff costs.

The College has previously recognised that current staffing costs are not sustainable and are also actively looking to reduce staffing costs through the Transformation Plan. As part of this process, the Board approved a three phase approach to workforce planning in October 2024 which is focused on organisational redesign.

It is important that the College closely monitors the identification and delivery of savings to staff costs to ensure that achievement of savings does not impact on the College's ability to deliver curriculum activity in future years.

Capital Expenditure

The College has received an allocation of £0.268million for capital maintenance which represents a small decrease from the 2023/24 allocation of £0.275million.

In addition, the College was also successfully awarded funding of £4.9million from the Scottish Government's Energy Efficiency and Clean Heating from the Green Public Sector Estate Decarbonisation Scheme. This represents the main capital project for 2024/25 and 2025/26 where the grant is to be used on the installation of energy efficiency measures and a clean heating system across the College's two campus buildings. The project is currently in early stages with the technical team now in place and working on the next stage of the project.

Medium Term Financial Planning

The College has prepared a medium term financial forecast as part of the SFC's FFR process. The SFC published guidance in May 2024 and the FFR was approved by the Board in June 2024.

The SFC has developed a set of common, indicative assumptions for Colleges to use in the aim of achieving consistency and comparability across the sector. The SFC continues to take into account the results from the Scottish Government's Spending Review and the subsequent impact on grant funding, pay costs and inflation when setting the FFR assumptions.

Assumptions include:

- SFC core grant funding and related credit targets remain unchanged from those set out in the 2024/25 final funding announcement.
- Student support funding requirements will be fully met.
- SFC capital maintenance funding should be based on the final 2024/25 funding allocations.
- Staff costs will reflect: agreed cost of living increases, public sector pay policy and any known or expected increases in employer pension contribution rates.
- Funding will not be provided for voluntary severance schemes.

We confirmed that the College has applied these assumptions when preparing the FFR.

The FFR anticipates operating deficits and adjusted operating surplus positions for 2024/25 to 2026/27, as shown in exhibit 3.

Exhibit 3- Adjusted Operating Position 2024/25-2026/27

	2024/25 **£'000**	**2025/26** **£'000**	**2026/27** **£'000**
Total income	15,224	15,403	15,520
Total expenditure	(16,085)	(16,266)	(16,381)
Operating surplus / (deficit)	**(861)**	**(863)**	**(861)**
Adjusted operating surplus / (deficit)	**4**	**2**	**4**

Source: Financial Forecast Return 2024/25 to 2026/27

The College has now established a working relationship with University of the West of Scotland. The College has recognised that this arrangement has the ability to improve the financial sustainability through receipt of additional income through University of the West of Scotland occupying the campus and through the pathfinder strategic project. These assumptions have also been factored into the College's financial plans. This arrangement remains an external risk to the College's financial sustainability if the expected benefits are not realised to the extent which they are currently forecasted.

Key risks and uncertainties facing the College

The further education sector has received a 'flat cash' settlement from the Scottish Government for 2024/25 which equates to a reduction in real terms. The Scottish Government's 2024/25 Budget set a college revenue budget of £643 million. Excluding the £26 million of transition funding that was initially part of the 2023/24 budget, this represents a decrease of £32.7m (-4.8%) from 2023/24.

As a result, Scotland's further education sector faces an extremely challenging financial future given (i) general and wage inflation costs are unfunded, (ii) making changes and refining delivery models brings resource implications related to planning and managing the change, and may have consequences in how the College is positioned for future success and able to meet the needs of the stakeholders it serves.

The College is heavily reliant on SFC funding which currently represents c.83% of the College's total income. As such a small movement in grant funding has a significant impact on the College's financial position.

The College has recognised the financial challenges impacting on the sector. Scenario planning has is a key component of both short term and medium term financial planning to monitor the uncertainty over funding, income streams and pay inflation, and the College has also continued to monitor financial sustainability as a critical risk on the risk register.

We do understand that these external factors (e.g. funding decisions and inflation) are not entirely within the College's control and the College is considering all options to maintain appropriate levels of the teaching delivery. The College itself has recognised that achieving a sustainable medium term financial position in the current environment will be extremely challenging, and our position and assessment continues to reflect this.

Vision, leadership and governance

Leadership

There have been a number of changes to the Board of Management from 1 August 2023 to the date of signing of the accounts.

All new Board members were provided with an induction programme prior to their first Board meeting. In view of the number of board-level changes in the financial year, we reviewed the induction process for new Board members and concluded that it provides those charged with governance with the information and platform to commence undertaking their duties effectively.

In addition, the Board held several development sessions during 2023/24 including a Board Strategy Day in May 2024. From review of the Board development sessions, we have concluded that they provided board members with appropriate and relevant information and a suitable platform to continue to discharge their leadership responsibilities effectively.

Governance arrangements

The Board of Management is responsible for ensuring the overall governance of the College. In driving forwards the strategic direction and ensuring the governance framework is operating as intended, the Board continues to be supported by seven committees:

- Audit Committee;
- Finance and General Purposes Committee;
- Human Resources Sub Committee;
- Learning and Teaching Committee;
- Remuneration Committee;
- Board Development Committee; and
- Grievances and Appeals Committee.

The Board is focused on demonstrating continuous improvement and carries out an annual self-evaluation process, with the latest results presented to the Board in May 2024. Overall, the feedback received from Board members was considered as positive. Several areas were identified for continuous improvement, and these were incorporated into the 2024/25 Board Development Action Plan.

Our review of the College’s Governance Statement confirms that the College has complied with the requirements of the Scottish Public Finance Manual (SPFM) and the Accounts Direction.

Board and Committee meetings

Committee meetings have continued to be held virtually rather than in person, to date, to comply with requirements for non-essential travel and physical distancing, and the preferred mechanism is through MS Teams, in line with the sector. During 2023/24, Board meetings have continued to be held in person.

Throughout 2023/24, the College has been able to maintain all aspects of board governance, including its regular schedule of Board and Committee meetings.

Through our review of committee papers we are satisfied that there continues to be effective scrutiny, challenge and informed decision making through the financial period.

Mission 2030

The Board approved the College's Strategic Ambition 2025 in June 2020 and the 2022/23 refresh to the Strategic Ambition 2025 to recognise the mid-point position of the strategic plan.

The College's focus for 2023/24 and to date has been on the development of the new phase of its strategy through Mission 2030. The strategy was approved by the Board in June 2024 and Mission 2030 is expected launch in the early months of 2025.

Mission 2030 builds on the Ambition 2025 strategy and continues to be focused on four key pillars to represent the College's strategic priorities. The pillars which form part of Mission 2030 are:

- Future Skills- Our Students
- Our Future Workforce - Our People
- Future Education - Our Learning
- Future Growth- Our Partners

Mission 2030 allows the College's strategic direction to be aligned with broader strategies, including SFC's strategy for building a responsive and sustainable education system, the National Strategy for Economic Transformation (NSET), the Regional Economic Strategy (RES) and Scotland's National Performance Framework (NPF) Outcomes and our Regional Economic Strategy (RES).

In line with the Strategic Ambition 2025 monitoring arrangements, to ensure the College meets its strategic ambitions and objectives key strategic priorities for each Mission 2030 pillar will be approved annually in the form of an Operating Plan. Progress in delivery of the Operating Plan will continue to be presented to each Board meeting.

We are satisfied that appropriate arrangements are in place to effectively develop and implement Mission 2030.

Internal Audit

An effective internal audit service is an important element of an entity's overall governance arrangement. The College's internal audit service is provided by RSM. We have taken cognisance of the work of internal audit in forming our opinion on the appropriateness of the disclosures in the Governance Statement.

The annual internal audit report was presented to the Audit Committee in September 2024. This report confirmed that "The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective." In addition, internal audit has not advised management of any additional disclosure requirements for the governance statement or any inconsistencies between the governance statement and information they are aware of from its work.

Use of resources to improve outcomes

Performance management arrangements

The Financial Memorandum between the SFC and fundable bodies in the college sector requires the Board to:

- have a strategy for reviewing systematically management's arrangements for securing value for money (VfM); and
- as part of internal audit arrangements, obtain a comprehensive appraisal of management's arrangements for achieving value for money.

Securing the economical and effective management of the College's resources and expenditure is the responsibility of the Board. The College is committed to ensuring value for money is achieved through good procurement practice and optimal use of procurement collaboration opportunities.

Performance framework

The College has developed a performance management framework which comprises updates on key performance indicators (KPIs) at each meeting of the Senior Leadership Team and Board for challenge and scrutiny. Updates on finance KPIs are also included as a standing item at each meeting of the Finance and General Purposes Committee.

The College has KPIs which are classified into two categories:

- Finance: measures include operating deficits, reliance on SFC income and cash days.
- Students: measures consider the achievement of credits, levels of applications received and student withdrawal rates.

On an annual basis, the College reviews its KPIs and targets to ensure they remain appropriate.

Through review of Board and Committee papers, we concluded that performance is given the appropriate level of scrutiny and challenge.

Performance in 2023/24

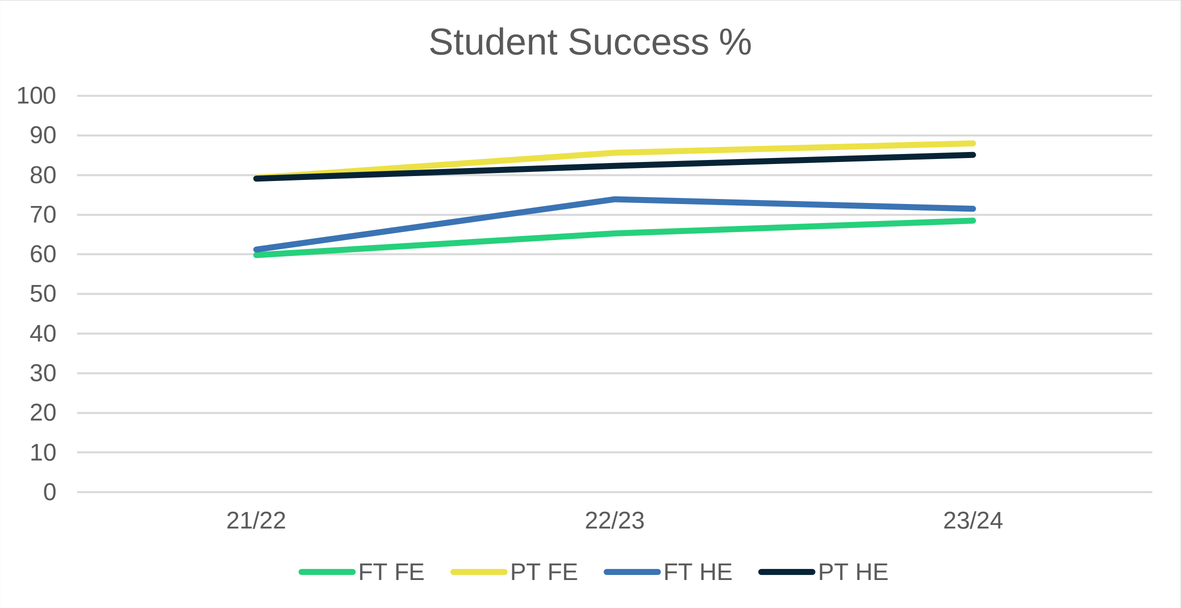
The College's performance against key performance indicators shows that overall performance has improved since 2022/23. We have highlighted the key performance trends for 2023/24 below (whilst financial performance is detailed in the financial management section).

As highlighted in exhibit 4, both full time and part time Higher Education success outcome figures have increased compared to that achieved in 2022/23 and 2021/22.

This increase in performance can be directly attributed to the College implementing key initiatives including a new observation system for teaching processes and a college wide self-evaluation system, in order to enhance the quality of education.

The lower rate of learner success rates in 2021/22 was likely caused by uncertainty and disruption and high levels of online learning which was a necessity during the pandemic.

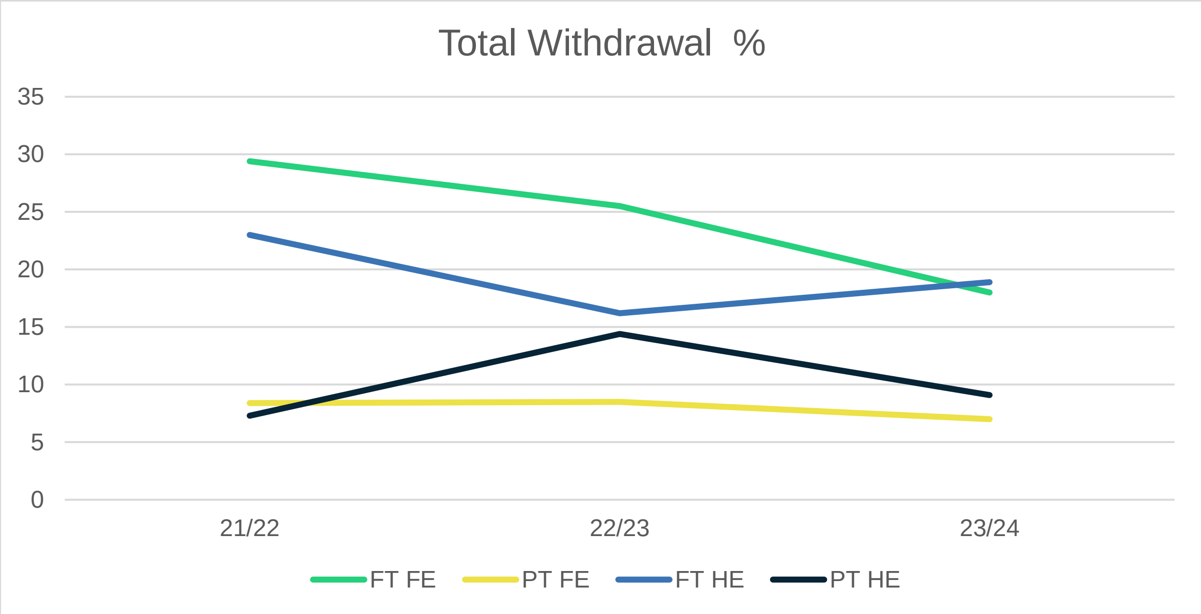
Exhibit 4: Student success percentages



Source: Performance Update Reports and Annual Accounts

The college has seen a decrease in early withdrawal rates in all student levels and modes of study except full time higher education. The increase in full time higher education withdrawals can be largely attributed to Schools Academy pupils returning to school to study during the COVID-19 pandemic and students leaving for employment as a result of cost-of-living pressures

Exhibit 5: Withdrawals rates



Source: Performance Update Reports and Annual Accounts

In line with SFC requirements, the College performed a student satisfaction survey in 2023/2024. The responses included those from learners from each of the faculties and from a range of courses including full-time and part-time. The overall College experience satisfaction rate increased slightly to 97% in 2023/24 compared to 96% in 2022/23.

In 2022/23 the college KPI's were all above the Scottish sector average. At the time of writing sector average performance is not available for 2023/24.

The College's performance against key performance indicators for academic year 2024 shows that for the third year in a row the student credits target have not been met. In 2022/23 the College delivered activity of 27,258 credits against a credit threshold of 27,800. The shortfall of 542 credits is within the 2% leeway allowed by SFC's credit guidance.

During 2023/24, the College was visited by Education Scotland as part of their resumed programme of Annual Engagement Visits. The College was rated as satisfactory, with no points for action. The major strength areas in the College's work identified by Education Scotland included:

- Learner progress and outcomes;
- Approaches to assuring and enhancing the quality of learning and teaching including professional updating and;
- Learner Engagement.

The College demonstrated an improvement in student success and outcomes compared to 2022/23 performance for all levels and mode of study. This was also reflected in the findings from Education Scotland's 2023/24 inspection.

As described in the Financial Sustainability section, there is a risk that the scale of savings required to enable the College to achieve a financially sustainable position alongside the significant financial pressures that the College is facing may impact on its ability to deliver curriculum activity or support students and staff in future years. This also presents a risk of deterioration in the College's performance and it is important that the College continues to monitor and assess its ability to offer quality provision of education.

Appendices

Appendix 1: Responsibilities of the College and Auditors	54
Appendix 2: Audit differences identified during the audit	60
Appendix 3: Action plan	62
Appendix 4: Follow up of prior year recommendations	65

Appendix 1: Responsibilities of the College and Auditors

Responsibilities of the College

The Code of Audit Practice (2021) sets out the following responsibilities:

Area	The College's responsibilities
Corporate governance	The Board of Management is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.
Financial statements and related reports	The Board has responsibility for: • preparing financial statements which give a true and fair view of the financial position of the College and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support the balances and transactions in its financial statements and related disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and • preparing and publishing, along with the financial statements, an annual governance statement, governance compliance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements and prepared in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the College and its financial performance, including providing adequate disclosures in accordance with the applicable financial

Area	The College's responsibilities
	reporting framework. The relevant information should be communicated clearly and concisely. The Board of Management is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. It is also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct for prevention and detection of fraud and error	The College is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.
Financial position	The College is responsible for putting in place proper arrangements to ensure its financial position is soundly based having regard to: • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
Best value	The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value.

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland.

The Code outlines the responsibilities of external auditors and it is a condition of our appointment that we follow it.

Our responsibilities

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

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

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

Wider scope audit work

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

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

Financial management

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

Auditor considerations

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

Financial sustainability

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

Auditor considerations

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

Vision, leadership and governance

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

Auditor considerations

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

Use of resources to improve outcomes

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

Auditor considerations

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

Best Value

Ministerial guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out their duty to ensure that arrangements are in place to secure Best Value in public services. Through our wider scope audit work, we consider the arrangements put in place by the Accountable Officer to meet these Best Value obligations.

Audit quality

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

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report can be found at https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202223

Independence

The Ethical Standards and ISA (UK) 260 require us to give the College full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical guidance and further to our External Annual Plan issued confirming audit arrangements we do not have any matters to not in that regard.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

In particular:

Non-audit services:

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Azets provided advisory services to the College on VAT and PSA matters. We obtained clearance from our Ethics Partner and Audit Scotland prior to commencing the engagement. The work has been undertaken by a separate team from the audit, and the audit team has had no involvement in this work.

Contingent fees: No contingent fee arrangements are in place for any services provided.

Gifts and hospitality: We have not identified any gifts or hospitality provided to, or received from, any member of the Board, senior management or staff.

Relationships: We have no relationships with the Board, its directors, senior managers and affiliates, and we are not aware of any former partners or staff being employed, or holding discussions in anticipation of employment, as a director, or in a senior management role covering financial, accounting or control related areas.

Our period of total uninterrupted appointment as at the end of 31July 2024 was eight years.

Audit and non-audit services

The total fees charged to the College for the provision of services in 2023/24 were as follows:

		2023/24	2022/23
Auditor remuneration		42,750	40,830
Pooled costs		(4,560)	(5,910)
Audit support costs		0	1,040
Sectoral cap adjustment		(10,250)	(9,100)
Total audit fee		**27,940**	**26,860**
Non-audit services		7,400	4,000
Total fees		**35,340**	**30,860**

Appendix 2: Audit differences identified during the audit

We are required to inform the College of any significant misstatements within the financial statements presented for audit that have been discovered during the course of our audit. Adjusted misstatements

Details of items corrected following discussions with management are as below.

No	Detail	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Reserves Dr / (Cr) £'000	SoCI Dr / (Cr) £'000
1.	Derecognition of job evaluation income	(1.198)	-	-	1.198
2.	Reclassification of job evaluation liability to a provision		Accruals- 1.198 Provisions- (1.198)		
	Net impact on (income)/expenditure				1.198
	Net impact on net assets				(1.198)

No unadjusted misstatements were identified within the accounts.

AZETS

Misclassification and disclosure changes

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the College.

We identified a number of reclassification adjustments and some minor presentational issues in the accounts, and these have all been amended by management. Details of all disclosure changes amended by management following discussions are as below.

No	Detail
1.	Remuneration Report- various disclosure points including updates to bandings to agree to the FReM and to reflect deduction of employee contributions from real increase in CETV for employees under the Scottish Teacher's Superannuation Scheme.
2.	Cashflow Statement- to reflect lease repayments in financing activities.
3.	Audit fee- to reflect audit plan quoted external audit fee.
4.	Annual Report - various disclosure points identified from completion of disclosure checklists.
5.	Student Support Funds- revision of the split between repayable to Funding Council as Clawback and Retained by the College for Students.
6.	Job evaluation- update to Adjusted Operating Position and other disclosures to reflect updated job evaluation accounting treatment, in line with the revised Accounts Direction.

Overall, we found the disclosed accounting policies, significant accounting estimates and the overall disclosures and presentation to be appropriate.

Appendix 3: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our 2023/24 audit.

The recommendations are categorised into three risk ratings:

Key:

1. Significant deficiency

2. Other deficiency

3. Other observation

1. Timeliness of receipt of accounts	Other observation
Observation	We commenced our audit on 30 September however, a full set of annual accounts (including the Performance Report, Governance Statement and Remuneration and Staff Report) was not received until 4 weeks into the audit process. We acknowledge that this was due to circumstances outwith the College's control.
Implication	There is a risk that if a full set of annual accounts are not provided on the commencement of our audit that we will be unable to complete all audit work in line with agreed timetables and Committee deadlines.
Recommendation	We recommend that a clear timetable is produced and observed to make accounts available in line with agreed and organised deadlines.
Management response	Our planning for the 2024-25 external audit will include deadlines for collating information for the Performance Report, Governance Statement and Remuneration and Staff Report to ensure the information is available in good time. **Responsible officer:** Executive Director of Finance **Implementation date:** June 2025

2. Receipt of valuation report	**Other observation**
Observation	The College commissioned its valuers to undertake a desktop valuation of the College's land and buildings asset portfolio as at 31 July 2024. This work was not completed by the valuers and output received by management until almost 4 weeks into our audit process. In addition, the output received by management was minimal and there was no evidence of management challenging whether this was appropriate, in line with the terms of engagement and expectations of movements in the market.
Implication	There is a risk that the information provided by the valuer is not appropriate or in line with the College's expectations of the movements in its land and building asset values in the year. If these are not challenged then the values recorded in the annual accounts could be misstated.
Recommendation	We recommend that a clear timetable and/or deadlines are agreed in advance with the valuer to ensure that valuation outputs are received in a timely manner. We also recommend that there is more evidence of management's challenge of the outputs provided by the valuer.
Management response	We will procure an external valuer and include the deadlines for reporting in their terms and conditions. We will retain a record of the challenges and discussions for review. **Responsible officer:** Executive Director of Finance **Implementation date:** June 2025

Appendix 4: Follow up of prior year recommendations

We have followed up on the progress the College has made in implementing the recommendations raised in previous years.

1. Cash Management	**Medium**
Recommendation	A cash days target - to be monitored alongside the finance updates presented and scrutinised at each meeting of the Finance and General Purposes Committee - could help to ensure that funds are optimised and not drawn down in advance of need.
Implementation date	31.03.24
Complete	SFC have implemented a change to the grant draw-down procedure, and are now paying the grant in a fixed profile. We are continuing to monitor cash projections as part of our budget monitoring given the payment of backpay to staff and reduction in balances.

2. IT general controls	**Medium**
Recommendation	We recommend that the specific IT points identified are addressed.
Implementation date	31.07.24
Ongoing	A new finance system has been procured and is currently being introduced, which should provide the additional IT controls. The new system is planned for implementation in February 2025. **Revised Implementation Date**: February 2025

3. Income recognition	Low
Recommendation	We would encourage Dumfries and Galloway College to carefully review their revenue streams to ensure the financial statements accurately reflect the nature of revenue transactions.
Implementation date	31.12.23
Complete	As part of our audit work, we have not identified any instances of income being inappropriately classified.

4. Related Parties disclosure	Low
Recommendation	We recommend that greater due care is taken when producing the Related Parties disclosure within the annual accounts and that a complete disclosure is provided at the start of the audit.
Implementation date	31.07.24
Ongoing	As part of our audit work, we concluded that the information within the Related Parties disclosure was accurate and complete. However, we did not receive a complete disclosure on the commencement of our audit work. **Revised Implementation Date**: August 2025