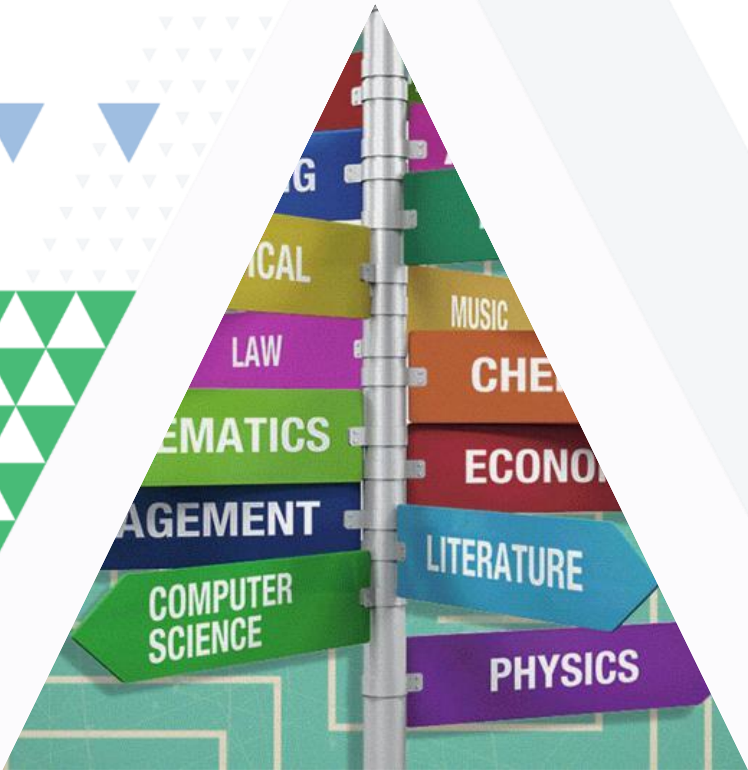
Dumfries and Galloway College

2022/23 Annual Audit Report to the Board and the Auditor General for Scotland

December 2023



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Key messages

This report concludes our audit of Dumfries and Galloway College for 2022/2023.

This section summarises the key findings and conclusions from our audit.

Financial statements audit

Audit opinion	Our independent auditor's report includes: • an unqualified opinion on the financial statements; • an unqualified opinion on regularity; and • an unqualified opinion on other prescribed matters.
Key audit findings	We have reported our audit findings on pages 12-47. We received a high-quality set of draft financial statements and working papers per the deadline set in our audit timetable. Throughout the audit, all requested information was provided in a timely manner and Dumfries and Galloway College staff made themselves available for discussions which greatly assisted this year's audit process.
Audit adjustments	We are required to communicate all potential adjustments, other than those considered to be clearly trivial. We have identified one adjusted difference to the unaudited financial statements which is included in Appendix 2. We identified a small number of disclosure and presentational adjustments during our audit. These have been reflected in the final set of financial statements and are listed in Appendix 2.

Accounting systems and internal controls	We have applied our risk based methodology to your 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, as part of our testing, we identified control weaknesses, we have included these in Appendix 3 of our report. No material weaknesses or significant deficiencies were noted. We have followed up on the progress the College has made in implementing the recommendations raised in previous years in Appendix 4 of the report.

Wider scope 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 achievement of operational objectives
	The College has demonstrated overall sound financial management but faces unprecedented and continuing challenges resulting from the COVID-19 pandemic, current levels of inflation (particularly in relation to utilities) and related public sector funding levels/extent of increases. The College reports an operating deficit of £0.999million for the year end 31 July 2023, with an adjusted underlying surplus of £0.007million. A cash advance of £0.450million was provided to the College by the SFC in July 2023 to meet working capital requirements over the year end. We are satisfied that the cash advance was requested as a matter of caution by the College and due to uncertainties around payment timing of key transactions as opposed to indicating underlying cash flow problems. A cash days target would help to ensure that funds are optimised and not drawn down in advance of need with cash days for both 2021/22 and 2022/23 being high (52 days and 50 days). We have made a recommendation to the College to improve its IT controls in relation to the key financial systems.

	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 College 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 FFR which forecasts 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. There remain a number of forecasting uncertainties in relation to staff pay awards, inflation and sector wide issues which contribute to increased financial risk and uncertainty. 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 2023/24 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. During 2022/23 extensive work was undertaken to refresh the Strategic Ambition 2025 to recognise the mid-point position of the strategic plan and to reflect the environment which the College currently operates. We are satisfied that appropriate arrangements are in place to oversee the delivery of the Strategic Ambition 2025.

	Auditor judgement Risks exist to 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 teaching union is engaged in Action Short of Strike (ASOS) which has affected the timely input of results for the students and therefore the college has not been able to evaluate the full year's KPIs. On this basis, our reported summary of the College's 2022/23 performance has been limited. The main student KPIs where the College demonstrated an improvement in performance compared to 2021/22 was the increase in both full time and part time students but there is a risk that the scale of savings required to enable the College to achieve a financially sustainable position may impact on the College's 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 in this area and it is important that the College continues to monitor and assess its ability to offer quality provision of education.

Definition

Our wider scope audit involves consideration of the College's arrangements as they relate to financial sustainability, financial management, vision, leadership and governance, and use of resources to improve outcomes. We have used the following grading to provide an overall assessment of the arrangements in place as they relate to the four dimensions.

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

Significant unmitigated risks affect achievement of corporate objectives

No major weaknesses in arrangements but scope for improvement exists

Pace and depth of improvement are adequate

Risks exist to achievement of operational objectives

Effective and appropriate arrangements are in place

Pace and depth of improvement are effective

Risks to achievement of objectives are managed

Introduction

The annual audit comprises the audit of the financial statements and the wider-scope audit responsibilities set out in the 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. The core elements of our work include:

- an audit of the 2022/23 annual report and accounts and related matters;
- consideration of the wider dimensions of public audit work;
- monitoring the college's participation in the National Fraud initiative; and
- any other work requested by Audit Scotland.

Responsibilities

The College is responsible for preparing an annual report and accounts which show a true and fair view 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.

Openness and transparency

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

Annual report and accounts audit

The College's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

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.	We have issued an unqualified audit opinion on the 2022/23 financial statements.
Going concern basis of accounting	In the public sector, 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. Our wider scope audit work considers the financial sustainability of the College.	We reviewed the financial forecasts for 2023/24. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the College will continue to operate for at least 12 months from the signing date. In our going concern assessment, we take cognisance of matters relevant to public sector bodies. Our audit opinion is unqualified in this respect.

Opinion	Basis for opinion	Conclusions
Opinions prescribed by the Auditor General for Scotland on: • Performance Report and Governance Statement • Remuneration and Staff Report	We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with relevant legislation and regulations.	The annual report contains no material misstatements or inconsistencies with the financial statements. We have concluded that: • the information given in the Performance Report and in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; • the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

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 part of the remuneration report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit.	We have no matters to report.

An overview of the scope of our audit

The scope of our audit was detailed in our Annual Audit Plan, which was presented to the Audit Committee in June 2023. 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. 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.

At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

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. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

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 were designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we consider 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 accounts as a whole, and not to express an opinion on individual accounts or disclosures.

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

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	In any organisation there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with *ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements.* This was considered to be a significant risk and Key Audit Matter for the audit.
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 the College's controls for specific transactions. **Audit procedures** • Review the College's accounting records and audit testing on transactions. • Adopt data analytics techniques in testing carried out. • Test high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness,

Risk area	Management override of controls
	corroboration and to ensure approval has been undertaken in line with the College's journals policy. • Review judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.
Key observations	We did not identify any indication of management override of controls from our audit work. We did not identify any areas of bias in key judgements made by management. Key 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 College could adopt accounting policies or recognise income transactions in such a way as to lead to a material misstatement in the reported financial position. This was considered to be a significant risk and Key Audit Matter for the audit.
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. However, we do not deem this risk to be present for revenue resource allocations from the Scottish Funding Council due to a lack of incentive and opportunity to manipulate transactions. **Audit procedures** • Evaluate the significant revenue streams and review the controls in place over accounting for revenue. • Consider the College's key areas of revenue and obtain evidence that revenue is recorded in line with appropriate accounting policies and that the policies have been applied consistently across the year.
Key observations	We have gained reasonable assurance on the completeness, accuracy and occurrence of income and we are satisfied that it is fairly stated in the financial statements.

Key risk area	Fraud in non-pay expenditure
Significant risk description	As most public sector bodies are net expenditure bodies, the risk of fraud is also present in relation to expenditure. There is a risk that expenditure may be materially misstated in the financial statements. This was considered to be a significant risk and Key Audit Matter for the audit.
How the scope of our audit responded to the significant risk	Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end. **Audit procedures** • Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. • Consider College's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Review accruals around the year end to consider if there is any indication of understatement of balances held. Consider accounting estimates.
Key observations	We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.

Key risk area	Pension asset (key accounting estimate)
Significant risk description	An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under FRS 102 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. This was considered to be a significant risk and Key Audit Matter for the audit.
How the scope of our audit responded to the significant risk	**Key judgements** Given that small movements in the underlaying assumptions may translate into significant changes of the pension asset we deem this area to be subject to a high risk of misstatement. **Audit procedures** • Review the controls in place to ensure that the data provided from the pension fund is complete and accurate. • Review the reasonableness of the assumptions used in the calculation against the pension fund actuary and other observable data. • Agree the disclosures in the financial statements to information provided by the actuary. • Consider the competence, capability, and objectiveness of the management expert in line with ISA (UK) 500 Audit Evidence.

Key risk area	Pension asset (key accounting estimate)
Key observation	The defined pension obligation was £nil as at 31 July 2023 (2022: asset of £1.702million) excluding the early retirement provision element. The actuarial report for the College's Local Government Pension Scheme identifies a pension surplus (or pension asset) of £5.006 million. This is a significant change to the prior year's pension asset of £1.702 million and is mainly driven by a significant increase in discount rate assumption between the years. The discount rate as of 31 July 2023 has been 5.05% and decreases the value of future pension obligations substantially which, when combined with no significant movement in the value of pension investments, results in a pension surplus outcome. Accounting standards require the College to review the pension surplus and only recognise the lower of the surplus or an 'asset ceiling'. A detailed technical guidance note on how to calculate the pension asset ceiling was issued by Audit Scotland early in July 2023. We have discussed this matter before the audit commenced with the College and management processed these changes in the accounts which were then presented for the audit. In effect, this has limited the recorded pension asset to the asset ceiling value of £nil in 2022/23. The prior year pension asset has been considered and an actuarial report obtained by the college which confirms the asset ceiling in 2021/22 is in excess of the asset and as such no adjustment was required to the prior year position. We have considered the actuarial assumptions and the Financial Reporting Standard 102 guidance in relation to asset recognition and presentation in the financial statements and have gained reasonable assurance over the assumptions used and are satisfied that the pension disclosures 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 £37.154 million at 31 July 2022, with external valuations last undertaken as at 31 July 2020. 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. This was considered to be a significant risk and Key Audit Matter for the audit.
How the scope of our audit responded to the significant risk	**Key judgements** There is the potential for management to use their judgement to influence the financial statements. **Audit procedures** • Evaluate management processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts and the scope of their work. • Evaluate the competence, capabilities, and objectivity of the valuation expert. • Consider the basis on which the valuation is carried out and the challenging of the key assumptions is applied. • Test the information used by the valuer to ensure it is complete and consistent with our understanding. If there have been any specific changes to the assets in the year, we will ensure these have been communicated to the valuer. • Ensure revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct. • Evaluate the assumptions made by management for any assets not revalued during the year and how

Key risk area	Valuation of land and buildings (key accounting estimate)
	management are satisfied that these are not materially different to the current value.
Key observations	We gained reasonable assurance over the valuation of estates land and buildings at the year and are satisfied that the land and buildings are fairly stated in the financial statements.

Estimates and judgements

We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.

As part of the planning and fieldwork 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 asset, provisions and accruals. Other than the pension asset and asset valuation we have not determined the other accounting estimates to be significant. We revisited our assessment during the completion stages of our audit and concluded that our assessment remained appropriate.

Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

Estimates and judgements	
Pension assumptions	**Auditor judgement: Balanced**
Management consider the present value of retirement obligations on an annual basis. The valuation is carried out by the actuarial firm Hymans Robertson. We considered key assumptions against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 July 2023. The assumptions of the actuary, Hymans Robertson, were within our expected range. The assumptions were predominantly in the middle our expected range with the exception of the discount rate which, while within our expected range, is considered to be on the prudent end of the scale.	

Estimates and judgements	
Estates valuation	**Auditor judgement: Balanced**

We ensured that assets are recorded in line with the FE SORP and the College's accounting policies and have been accounted for appropriately. We reviewed the asset valuations and ensured that the College has completed a recent assessment for impairment across its estate. This year the College's assets were revalued by a provisional valuer DM Hall.

We considered the competence, capability and objectiveness of the external valuer in line with ISA 300 (UK). The College performed an impairment review of the assets and did not identify any indication of impairment. The results of our subsequent review of the above evidence is that the estates net book value is not materially misstated.

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 the College and the needs of users. We review our assessment of materiality throughout the audit.

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

College Materiality

Our initial assessment of materiality for the College's financial statements was £279,000. On receipt of the unaudited financial statements, we reassessed materiality and updated this to £270,500. We consider that our assessment has remained appropriate throughout our audit.

	£
Overall materiality for the financial statements	270,500
Performance materiality	202,800
Trivial threshold	13,500

Materiality	Our assessment is made with reference to the College's expenditure levels. We consider expenditure to be the principal consideration for the users of the financial statements when assessing the performance of the College. Our assessment of materiality equates to approximately 1.7% of the College's expenditure as disclosed in the 2022/23 unaudited annual accounts. In performing our audit, we apply a lower level of materiality to the audit of the Remuneration and Staff Report. Our materiality in this respect is set at £5,000.
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	Clearly trivial are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Audit differences

We have identified one unadjusted difference to the unaudited financial statements which is included in Appendix 2.

We identified a small number of disclosure and presentational adjustments during our audit. These have been reflected in the final set of financial statements and are listed 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 to the College. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Our action plan in Appendix 3 details the weaknesses and opportunities for improvement that we have identified during our audit.

No material weaknesses or significant deficiencies were noted.

We have followed up on the progress the College has made in implementing the recommendations raised in previous years in Appendix 4 of the report.

Other communications

Accounting policies, presentation and disclosures

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 annual accounts, are in line with the FE SORP, and are considered appropriate.

We will conclude on whether all the disclosures required by relevant legislation and applicable accounting standards have been made appropriately once the final, complete set of accounts is provided.

Overall, we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate subject to the above checks.

Fraud and suspected fraud

We have previously discussed the risk of fraud with management. 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 Funds. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

Written representations

We provided the final letter of representation to the Board of Management for signing at the same time as the financial statements are approved.

Related parties

The first version of the accounts did not have the relevant disclosures made. The College updated the accounts following our findings.

Confirmations from third parties

We have received all third parties confirmations required for the purpose of our audit.

Wider Scope

	Auditor judgement Risks exist to 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 COVID-19 pandemic, current levels of inflation (particularly in relation to utilities) and related public sector funding levels/extent of increases. The College reports an operating deficit of £0.999million for the year end 31 July 2023, with an adjusted underlying surplus of £0.007million. A cash advance of £0.450million was provided to the College by the SFC in July 2023 to meet working capital requirements over the year end. We are satisfied that the cash advance was requested as a matter of caution by the College and due to uncertainties around payment timing of key transactions as opposed to indicating underlying cash flow problems. A cash days target would help to ensure that funds are optimised and not drawn down in advance of need with cash days for both 2021/22 and 2022/23 being high (52 days and 50 days). We have made a recommendation to the College to improve its IT controls in relation to the key financial systems.

	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 College 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 FFR which forecasts 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. There remain a number of forecasting uncertainties in relation to staff pay awards, inflation and sector wide issues which contribute to increased financial risk and uncertainty. 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 2023/24 and beyond, and this requires continuing careful management and oversight.

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.	**Auditor judgement** Effective and appropriate arrangements are in place 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. During 2022/23 extensive work was undertaken to refresh the Strategic Ambition 2025 to recognise the mid-point position of the strategic plan and to reflect the environment which the College currently operates. We are satisfied that appropriate arrangements are in place to oversee the delivery of the Strategic Ambition 2025.

Use of Resources to Improve Outcomes	Auditor judgement
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.	Risks exist to achievement of operational objectives The College has appropriate performance management processes in place that support monitoring and scrutinising performance. The teaching union is engaged in Action Short of Strike (ASOS) which has affected the timely input of results for the students and therefore the college has not been able to evaluate the full year's KPIs. On this basis, our reported summary of the College's 2022/23 performance has been limited. The main student KPIs where the College demonstrated an improvement in performance compared to 2021/22 was the increase in both full time and part time students but there is a risk that the scale of savings required to enable the College to achieve a financially sustainable position may impact on the College's 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 in this area and it is important that the College continues to monitor and assess its ability to offer quality provision of education.

Financial management

Financial performance 2022/23

The College reported an operating deficit of £0.999million for the year ended 31 July 2023, equating to 7% of the College's total income.

Adjusting for non-cash transactions per SFC directions, such as depreciation (£0.668million) and the net charge arising from the pension valuation (£0.338million), the College shows an "adjusted" operating surplus of £0.007million (2021/22: deficit of £0.070million). This represents a small decline to in year performance when compared to the initial budget "adjusted" surplus of c.£0.113million primarily due to:

- The original budget was based on pay award at 2%. The provision at year end is based on the current offer which is higher than budgeted and still to be agreed.
- The budget did not include costs incurred to cover vacant posts for specific projects during the year.
- Utility costs were higher than budgeted for the full year due to increased prices and levels of inflation.

The College set an ambitious savings target of £0.511million for 2022/23. This was delivered in full through close monitoring of costs and reduction in additional timesheet hours. This is a notable achievement in a year where the College faced such financial uncertainty.

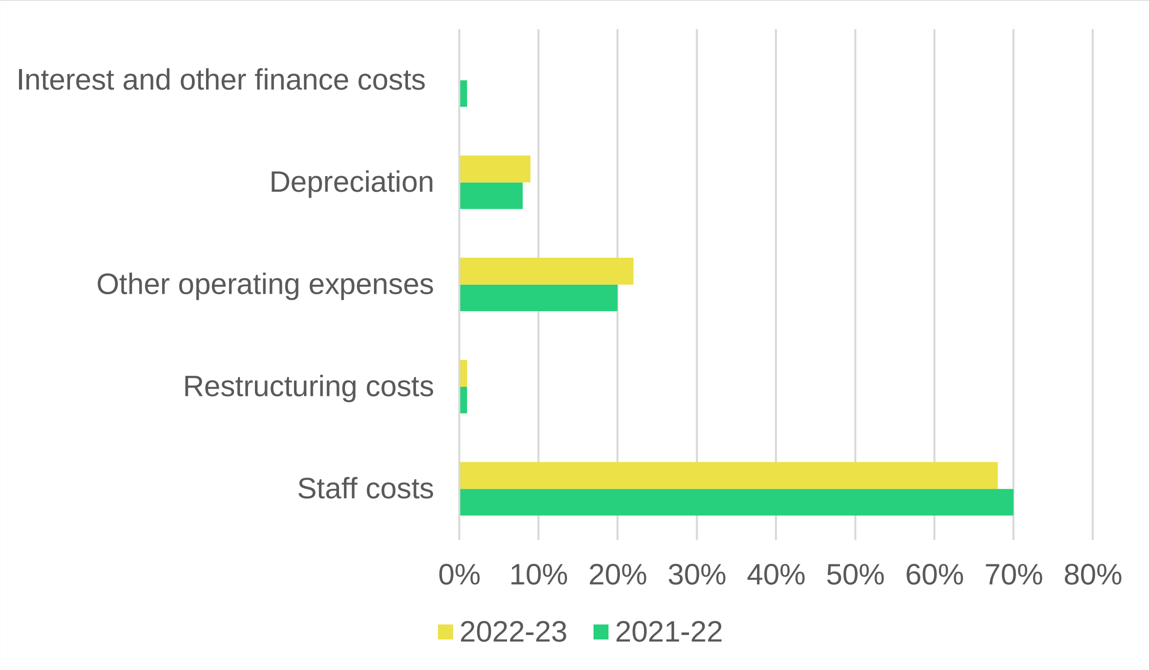
The College's main source of income continues to be grant funding from the SFC (84% of total income in 2022/23). The financial position improved in the year and when compared to the prior year due to income received from additional ring fenced grants including funds for Mental Health and Counsellors, the Pathfinders Project, and Young Persons Guarantee funding, and a positive release from Deferred Capital Grants.

As detailed in exhibit 1, staff costs continue to be the highest area of spend for the College accounting for 68% (70% in 2021/22) of total expenditure. When compared to the previous year these costs decreased by 4% mainly reflecting savings achieved from severance schemes offset by difficulties with recruitment and use of agency staff to fill vacancies during the year.

The cost of voluntary severance in the year was lower than last year at £0.186million (£0.215million in 2021/22) and 9 members of staff took advantage of the scheme in 2022/23. 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.

At the time of writing, 2022/23 pay awards are not yet agreed. Pay negotiations are currently ongoing for the 2022/23 and 2023/24 pay award for both support and teaching staff. The year end outturn assumptions have been calculated based on the flat rate final offer of £2,000 per FTE which represents Colleges Employers Scotland's full and final offer to the formal dispute on pay which has been taken to staff unions.

Exhibit 1 Key expenditure items 2 years comparison



Source: Annual Accounts 2022/23 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 £2.049million at year end (representing 50 cash days). This represents a slight decrease from the cash position at 31 July 2022 of £2.168million (and 52 cash days).

A cash advance of £0.450million was provided to the College by the SFC in July 2023 to meet working capital requirements over the year end. The cash advance was requested by the College due to the timing of the following payments:

- Clawback of 2021-22 credit funding was not repaid in the period
- 2022-23 Pay award outstanding at July 2023; and
- Significant supplier invoices not received until August.

We are satisfied that the cash advance was requested as a matter of caution by the College and due to uncertainties around payment timing of key transactions as opposed to indicating underlying cash flow problems. The College does not have a formal cash days target but going forward is aiming to work to cash days of c.20 days. 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 with this aim and help to ensure that funds are not drawn down in advance of need.

Recommendation 1

Systems of internal control

We have evaluated the College's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.

We consider the system of control in place at the College to be good. Our work on general IT controls identified some matters in relation to key financial systems.

Recommendation 2

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 most recent NFI exercise commenced in 2022, with matches received for investigation from January 2023. Matches require to be investigated by 30 September 2023 and the results recorded on the NFI system.

The College staff assessed the matches and investigated as appropriate by the 30 September 2023 deadline. The NFI exercise did not identify any fraud or error.

Overall, we concluded that the College's arrangements with respect to NFI are satisfactory.

Financial sustainability

Significant audit risk

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

Financial sustainability
The College continues to face significant challenges, with ongoing effort and activity to reach a long term sustainable position. The 2022/23 Financial Forecast Return shows an adjusted operating deficit in 2023/24 and 2024/25. However, these projections are highly dependent on the phasing of the College's return from lockdown restrictions and the recovery of non-SFC income which has been significantly impacted throughout the pandemic. Staff costs continue to be a significant pressure are for the College, although work is underway through the Transformation Plan to address this and generate savings. The Transformation Plan has been reviewed in light of the COVID-19 pandemic. Whilst it was deemed that the drivers for change and overall objectives remained valid, the impact of COVID-19 highlighted the need to accelerate the pace of change in some areas. Work is ongoing to prepare the 2024/25 budget and update medium term financial plans, reflecting on the continued impact the COVID-19 pandemic has on service delivery and financial forecasts.

Our detailed findings on the College's arrangements for achieving long term financial sustainability are set out below.

2023/24 Financial Plan

The Board approved the 2023/24 budget in June 2023, in line with agreed timescales.

Due to the significant financial pressures facing the College sector - including pay award uncertainty, inflationary pressures and reduced funding - the College developed several budget scenarios as part of the 2023/24 budget setting process. The financial scenarios considered were higher pay inflation, lower pay inflation, finance network assumptions, realistic and realistic/decease in SFC funding. The assumptions within the realistic scenario were applied to the budget approved by the Board.

The 2023/24 budget projects an operating deficit of £0.640million. Adjusting for non-cash items such as notional interest and depreciation gives a forecast adjusted operating surplus of £0.034million.

Budgeted income of £15.073million is 1% lower than 2022/23 actual income. The SFC published final colleges funding allocations in May 2023. The 2023/24 SFC main grant allocation for the College is £11.047million based on flat cash but with a reduction of 10% in education delivery. This translated into the same reduction for the College’s credit target for 2023/24, which is set at 27,800 (30,889 in 2022/23).

Budgeted expenditure of £15.713million is lower than 2022/23 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 2022/23 to 2025/26 FFR has been prepared based on reduction in staffing numbers in 2023/24, as detailed in exhibit 2. This represents around 9% of 2022/23 total headcount.

Exhibit 2: 2023/24 Annual Staffing Efficiencies

	2023/24 FTE
FTE Staff reduction- vacancy management	15
FTE Staff reduction- voluntary severance	3
FTE Staff reduction- compulsory redundancy	0
Total Staff reduction	**18**

Source: 2022/23 to 2025/26 FFR - June 2023

The College's voluntary severance programme is expected to continue into 2023/24 as the main way to achieve savings in staff costs. Further efficiencies to reduce staff costs are expected to be achieved through measures including:

- Scrutiny and additional approval required for any vacancies arising;
- Full review of fixed term and temporary contracts; and
- Reduction in approved timesheets and additional hours for staff.

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.

Capital Expenditure

The College has received an allocation of £0.275million for backlog and lifecycle maintenance.

Projects included in the 2023/24 capital budget are detailed in exhibit 3. The College has recognised that additional funding will be required to allow for full delivery of the 2023/24 capital plan and work is ongoing to identify additional funding sources.

Exhibit 3: 2023/24 capital budget

Activity	Cost £
Baseline plan of level 0 workshop areas at Dumfries Campus	5,000
Classroom upgrades- E-Sports and 2 x general classrooms	50,000
Flooring works, DFS Level 0 and level 2. Stranraer ground floor	60,000
Fire alarm system upgrade	120,000
CCTV System Upgrade	35,000
Pump System Upgrade	60,000
External Cladding Clean	12,000
LED lighting upgrade	150,000
Total 2023/24 Capital Plan	**492,000**[1]

Source: Estates Action Plan- September 2023

[1] Based on full fire alarm system upgrade of £120,000. Basic upgrade of £30,000 also included as an option within the 2023/24 capital plan.

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 2023 and the FFR was approved by the Board in June 2023.

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 has taken into account the results from the Scottish Government's Spending Review, published on 31 May 2022, 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 2023-24 final funding announcement.
- Flexible Workforce Development Funding will continue at current levels.
- Student support funding requirements will be fully met.
- SFC capital maintenance funding should be based on the final 2023/24 funding allocations.
- Funding for digital poverty will not continue at 2022/23 levels for 2023/24 only.
- Staff costs will reflect: agreed cost of living increases, public sector pay policy, no assumed increase in social security costs 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 in 2023/24 to 2025/26, as shown in exhibit 4.

Exhibit 4- Adjusted Operating Position 2023/24-2025/26

	2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**
Total income	15,073	15,171	15,437
Total expenditure	(15,713)	(15,691)	(15,979)
Operating surplus / (deficit)	**(640)**	**(520)**	**(542)**
Adjusted operating surplus / (deficit)	**34**	**154**	**132**

Source: Financial Forecast Return 2022/23 to 2025/26

The College is progressing with the strategic partnership with the University of the West of Scotland which includes use part of the Crichton campus building. The College has recognised that this project has the ability to improve the financial sustainability of the College through sharing a proportion of estates costs and receiving additional income from University of the West of Scotland to occupy the campus. These assumptions have also been factored into the College's financial plans. This arrangement presents an external risk to the College's financial sustainability if the expected benefits are not realised to the extent which they are currently forecasted.

The College has also commenced several key elements of work in 2023/24 to look at the effectiveness and efficiencies of services provided 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.

It is important that the College closely monitors the identification and delivery of savings to ensure that achievement of savings either does not impact on the College's ability to deliver curriculum activity or support students and staff in future years, or that any such impact is overtly considered and reflected in scrutiny and governance discussions as the College seeks to balance competing demands and pressures.

Key risks and uncertainties facing the College

The further education sector has received a 'flat cash' settlement from the Scottish Government which for 2023/24 equates to a reduction of 8.5% in real terms.

As a result, Scotland's further education sector, already in financial recovery following the impact of Covid-19, now faces a precarious financial future as general and wage inflation costs significantly exceed current funding levels.

The College is heavily reliant on SFC funding which currently represents c.68% of the College's total income. As such a small movement in grant funding has a significant impact on the College's financial position.

Staff pay negotiations are currently ongoing for the 2022/23 and 2023/24 pay award for both support and teaching staff and if the agreed pay award is higher than budgeted then this also presents a significant risk to 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 high risk on the risk register. In addition, the language used in the year end financial outturn reports and budget setting reports to the Board appropriately convey the extent of the financial challenge, allowing Board members to be kept informed on the extent of the challenges and how these specifically impact on the College.

We do understand that these external factors (e.g. funding decisions, inflation, pay awards) 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 reflects this.

Vision, leadership and governance

Leadership

There have been a number of changes to the Board of Management from 1 August 2022 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 Development Committee undertook a review of the skills and knowledge of members in June 2023 and as a result, Committee membership was updated to accommodate necessary skills required for each Committee.

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 October 2023. Overall, the feedback received from Board members was considered as positive. Several areas were identified for continuous improvement, and these were incorporated into the 2023/24 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

The College adapted its governance arrangements in response to the pandemic. Board meetings adopted a hybrid approach during 2022/23 and Committee meetings have continued to be held virtually rather than in person.

Throughout 2022/23, 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.

Strategic Ambition 2025

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

The revised Strategic Ambition 2025 continues to uphold the core elements of the original Ambition and key changes to the strategic plan include:

- Changes to the language used in the Ambition to reflect the environment which the College currently operates including the fact that the original Ambition was approved before the COVID-19 pandemic impacted on the College.
- Review of the Ambition's supporting strategies to consider how these directly link to the delivery of the Ambition 2025. This exercise resulted in one of the supporting strategies being removed from the College's strategic framework.

The revised Ambition continues to takes cognisance of the College's overarching vision, mission and values, and is structured under four strategic objectives:

- Student Experience- We will provide our students with an ambitious, innovative tertiary education experience that is responsive to Scotland's future economy;
- People and Culture- We will work together to create a productive and resilient workforce;
- Growth and Financial Sustainability- We will secure college financial performance through our focus on long term growth and efficiency; and
- Systems and Infrastructure- We will improve our customer experience through sustainable use of our estate, resources and infrastructure.

The Ambition is underpinned with a suite of supporting strategies which describe the work that the College intends to carry out over the five years to successfully deliver the long term sustainability of the organisation.

To ensure the College meets its strategic ambitions and objectives, key strategic priorities for each supporting strategy are approved annually in the form of an Operating Plan. Progress in delivery of the Operating Plan has been presented to each Board meeting. Sufficient progress has been made by the College in achieving the 2022/23 strategic priorities and any actions which are not fully complete during 2022/23 have been incorporated into the 2023/24 Action Plan.

We are satisfied that appropriate arrangements are in place to oversee the delivery of the Strategic Ambition 2025.

The College's focus for 2023/24 is to start looking at what the Strategic Ambition 2030 looks like and to open up the consultation process to support this work.

Risk management

The College's risk register is regularly updated to reflect the various risks which impacts on the College, including the development of mitigating actions where appropriate to reduce risk.

The College's risk management policy was updated during the year and approved by the Audit Committee in September 2023. The policy was reviewed and updated to ensure the current version of the policy best aligns to how and where the College was interacting with risks.

The key changes made to the policy were to strengthen the reporting of risks by using three lines of defence as a risk management framework to manage and mitigate risks effectively which includes:

- The first line of defence covers front-line employees and operational managers who directly manage and own the risks associated with their day-to-day activities.
- The second line of defence consists of specialised risk management, compliance, and control functions within the College. Their role is to oversee and support the first line by providing guidance, setting policies and standards, and monitoring compliance with these policies.
- The third line provides an objective and independent assessment of the effectiveness.

Internal Audit has undertaken a review of the updated risk management policy and arrangements where their conclusions are due to be presented to the November 2023 Audit Committee meeting.

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 2023. 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.

Standards of conduct

In our opinion the College's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and for complying with national and local codes of conduct.

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.

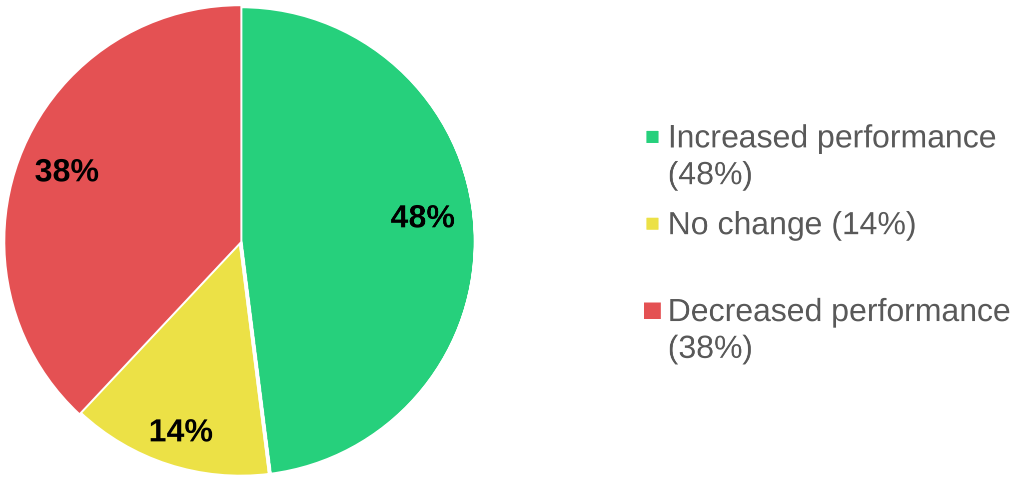
Performance in 2022/23

The College's performance against key performance indicators shows that overall performance has improved since 2021/22. We have highlighted the key performance trends for 2022/23 below (whilst financial performance is detailed in the financial management section).

The teaching union is engaged in Action Short of Strike (ASOS) which has affected the timely input of results for the students and therefore the college has not been able to evaluate the full year's KPI's. On this basis, our reported summary of performance in this section of the report is limited.

As detailed in exhibit 5, the performance report presented to the Board in October 2023, highlighted that for the KPIs with data to report on, 48% of KPIs had improved, 14% of KPIs were consistent with the prior year and 38% worsened since 2021/22.

Exhibit 5: 2022/23 performance- student KPIs



Source: Performance Report- October 2023

In line with SFC requirements, the College performed a student satisfaction survey in 2022/2023. 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 was 96% compared to 90.4% in 2021/22.

The College's performance against key performance indicators for academic year 2023 shows that for the second year in a row the student credits target have not been met. In 2022/23 the College delivered activity of 30,756 credits against a total target of 30,889. The shortfall of 133 credits is within the 2% leeway allowed by SFC's credit guidance.

The main student KPIs where the College demonstrated an improvement in performance compared to 2021/22 was the increase in both full time and part time students. 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 may impact on the College's 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 in this area and it is important that the College continues to monitor and assess it's ability to offer quality provision of education.

Climate change

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

For 2022/23 audits, external auditors were required to gather basic information on the arrangements for responding to climate change in each body through completion of a questionnaire.

The College's Systems and Infrastructure was approved by the Board in 2021 to the support the delivery of the Strategic Ambition 2025. The Strategy is supported by a Climate Change Action Plan which includes the key focus areas of the College over the five year period to work towards its corporate emission reduction target of being net zero by 2030.

The College commits to working with sector colleagues to embedding climate change and sustainability into all subject areas where their roadmap to net zero includes the following activities, targets and focus areas:

- Carbon reductions through efficient operations- 2020-2024
- Reduction of business travel & decarbonising of the college fleet- 2020-2022
- Waste reduction- 2020-2024
- Skills and education- 2021-2024
- Partnerships and collaboration- 2020-2024
- Carbon offsetting- 2023-2024

The implementation of the strategy and climate change action plan has continued across both the estate and the curriculum. The College continues to operate its Green Skills Academy which offers a range of courses focussed on sustainability and green technology to allow people to upskill or train for an employment in a net zero future.

During 2022/23, the College has monitored progress towards meetings its emission targets through Committee Reporting, the Outcome Agreement and through annual performance reporting.

Appendices

Appendix 1: Responsibilities of the College and the Auditor

Responsibilities of the College

The College has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

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, working with senior executives.
Financial statements and related reports	The Board has responsibility for: • preparing financial statements which give a true and fair view of its financial position and the expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; • maintaining proper accounting records; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of the College.

Area	The College's responsibilities
	Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely. The Board of Management is responsible for ensuring the development and implementation of 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.

Auditor responsibilities

Code of Audit Practice

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

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

Our responsibilities

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

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

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

Wider scope audit work

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

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

Financial management

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

Auditor considerations

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

Financial sustainability

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

Auditor considerations

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

Vision, leadership and governance

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

Auditor considerations

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

Use of resources to improve outcomes

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

Auditor considerations

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

Audit quality

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

Audit Scotland maintains and delivers an Audit Quality Framework.

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

Our period of total uninterrupted appointment as at the end of 31 March 2023 was seven years.

Audit and non-audit services

The total fees charged to the College for the provision of services in 2022/23 were as follows:

	Current year **£**	**Prior year** **£**
Audit of Dumfries and Galloway College (Audit remuneration)	40,830	18,330
Total audit	40,830	18,330
Non-audit services	4,000	5,000
Total fees	44,830	23,330

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. We provided advisory services to the College on VAT 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 VAT work.

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.

Current Year Adjustments

No	Detail	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Reserves Dr / (Cr) £'000	SOCIE Dr / (Cr) £'000
1.	Education Income				87
	Other Operating Income				(87)
	Being the reclassification of Education Income to Other Operating Income				
	Net impact on SOCIE			**-**	**-**
	Net impact on net assets				**-**

Unadjusted misstatements

We identified no unadjusted misstatements during our audit.

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 College's 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.	Reclassification of education income to other operating income.
2.	Related party disclosures updated to include transactions with Realise Ltd.

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 audit.

Action plan grading structure

To assist the College in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated as follows:

Rating	Assessment rationale
High	An issue that results in a severe impact to the achievement of objectives in the area audited.
Medium	An issue that results in a moderate impact to the achievement of objectives in the area audited.
Low	An issue that results in a small impact to the achievement of objectives in the area audited.

Current year action plan

1. Cash management	**Medium**
Observation	Operating cash held by the College was £2.049million at year end (representing 50 cash days). This represents a slight decrease from the cash position at 31 July 2022 of £2.168million and 52 cash days but remains high for the College. In addition, a cash advance of £0.450million was provided to the College by the SFC in July 2023 to meet working capital requirements over the year end.
Implication	A key principle for public bodies is that they do not draw down cash in advance of need.
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.
Management response	We will include a ‘Days cash’ update in our Management Accounts, and a comparison to the FFR. **Responsible officer:** Karen Hunter **Implementation date:** 31.03.24

2. IT general controls	Medium
Observation	Our specialist IT team reviewed design and implementation of IT general controls in the key systems impacting preparation of the financial statements and identified a number of areas for improvement in relation to password and access management, and change authorisation. (As this is a public report and for reasons of IT/control sensitivity, we have provided specific detail to the College separately).
Implication	There is a risk of systems issues adversely impacting the control environment and/or financial statements.
Recommendation	We recommend that the specific IT points identified are addressed.
Management response	We are in the process of procuring a new Finance System and will address the audit recommendations as part of the assessment criteria. **Responsible officer:** Karen Hunter **Implementation date:** 31.07.24

3. Income recognition	Low
Observation	During our audit, we identified that some fee income in relation to a co-location project with UWS had been included under Education Income. However, we did not agree with the income allocation and deemed appropriate to reclassify the amount into Other Operating Income.
Implication	Incorrect recognition of revenue streams under an inappropriate category could result in reflecting an inaccurate representation within the financial statements.
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.
Management response	We will update our processes to categorise income receivable. **Responsible officer:** Karen Hunter **Implementation date:** 31.12.23

4. Related Parties disclosure	**Low**
Observation	The Related Parties' disclosure was incomplete and not fully precise when disclosing the transactions and balances with related parties.
Implication	With the Related Parties note being a significant and important disclosure within the annual accounts, there is a risk that a large number of errors may result in material misstatement to a disclosure which is subject to particular public interest and scrutiny.
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.
Management response	We will collate the Related Parties information earlier in the year end close down process to ensure accuracy and completeness for the accounts disclosures. **Responsible officer:** Karen Hunter **Implementation date:** 31.07.24

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.	**VAT Returns**
Recommendation	Management should have controls in place to ensure other members of staff can upload the VAT returns in case there are staff absences
Implementation date	**July 2023**
Conclusion	From our audit testing we have not identified any late VAT Return submission or evidence of late payment.

2.	**University of the West of Scotland Service Level Agreement**
Recommendation	The College should establish a formal service level agreement with the University of West of Scotland which sets out arrangements for the teaching contract.
Implementation date	**December 2023**
Conclusion	From our discussion with management we are aware that due to the change in the nature of the relationship with University of the West of Scotland the need for a service level agreement has been superseded with a new Strategic Agreement in place. We will continue to monitor this changing relationship to ensure relevant agreements are in place for the services provided.