Dundee and Angus College

Annual Audit Report to the Board of Management and the Auditor General for Scotland year ending 31 July 2023

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Contents

Our reports are prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 18 May 2022 through which the Accounts Commission has appointed us as external auditor of Dundee and Angus College (the College) for financial years 2022/23 to 2026/27. We undertake our audit in accordance with Further and Higher Education (Scotland) Act 1992; and our responsibilities as set out within Audit Scotland's Code of Audit Practice 2021.

This document is to be regarded as confidential to Dundee and Angus College. It has been prepared for the sole use of the Audit and Risk Committee as the appropriate committee charged with governance by the Board of Management. No responsibility is accepted to any other person in respect of the whole or part of its contents.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

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20 December 2023

Dear Members,

Annual Audit Report – Year ending 31 July 2023

We are pleased to present our Annual Audit Report for the year ended 31 July 2023. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Annual Audit Plan which we presented to the Audit & Risk Committee on 26 May 2023. We have reviewed our Annual Audit Plan and concluded that the significant audit risks and other areas of management judgement documented therein remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail, then please do not hesitate to contact Mazars LLP.

Yours Faithfully,

Michael Speight

1) Executive summary

Purpose of this report and principal conclusions

This Annual Audit Report sets out the findings from our audit of Dundee and Angus College ('the College') for the year ended 31 July 2023 and formed the basis for discussion at the Audit and Risk Committee meeting on 5 December 2023.
Our responsibilities are defined by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice ('the Code') issued by Audit Scotland. We have the following conclusions:

Area	Conclusion
Opinion on the financial statements	We issued an unqualified opinion, without modification, on the financial statements.
Opinion on regularity	We issued an unqualified regularity opinion, meaning that in our opinion, in all material respects the expenditure and income recognised in the financial statements have been applied for the purposes intended.
Opinion on other requirements	We issued an unqualified opinion on the matters prescribed by the Auditor General for Scotland. Namely, that the remuneration and staff report, performance report and governance statement have been properly prepared in accordance with the relevant legislation.
Wider scope work	We concluded as follows against the wider scope dimensions: • The College has adequate financial planning arrangements in place, including budgetary control, that help the Board members scrutinise finances. However, given the overall sector financial position, we consider that the College's ability to remain financially sustainable over the medium to longer term, without significant additional funding or cost cutting, remains a risk; and • The College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Management, which are appropriately reflected in their governance statement; • The College has effective arrangements, including budgetary control, that help the Board Members scrutinise finances; and • The College has an effective performance management framework in place that supports progress towards the achievement of value for money.

Status of our audit work

We have completed our work on the financial statements and wider scope work for the year ended 31 July 2023.

Internal control recommendations and misstatements

We have identified and raised two internal control recommendation in section 3 below which relates to findings as a result of our audit work. Given this was our first year performing the audit there were no internal recommendations from prior years to provide an update on.

Section 4 outlines the misstatements noted as part of our audit and this was at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit & Risk Committee in a follow-up letter.

Our audit approach

We provided details of our intended audit approach in our Annual Audit Plan on 26 May 2023. We have not made any changes to our audit approach since we presented our Annual Audit Plan.

Adding value through the audit

We recognise that all of our clients want us to provide a positive contribution to meeting their ever-changing business needs. Our aim is to add value to Dundee and Angus College through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the College promote improved standards of governance, better management and decision making and more effective use of limited financial resources.

Materiality

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

We set materiality at the planning stage of the audit at £877,000 using a benchmark (1.75%) of total revenue. Our final assessment of materiality, based on the draft financial statements is £834,000 using the same benchmark. The decrease in materiality amount is due to the planning materiality being based on prior year amount while the final materiality level was based on the actual year-end figures.

Level of materiality	Initial Threshold £'000	Final Threshold £'000
Overall materiality	877	837
Performance materiality	570	544
Trivial threshold for errors to be reported to the Audit and Risk Committee	26	25

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

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;

- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

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

Performance Materiality

Our audit testing is based on a level of performance materiality, which is a percentage of overall materiality, but also dependent on the level of inherent risk assessed on the area being tested. It is lower than overall materiality as it helps to reduce the risk that the total of the uncorrected or undetected misstatements does not exceed materiality for the financial statements as a whole. It is based on between 50 – 80% of overall materiality depending on the inherent risk level assessed, with a reduction applied for first year audit engagements. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 65% of overall materiality as performance materiality.

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit & Risk Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. This level was set at 3% of materiality.

2) Audit of the financial statements

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Annual Audit Plan;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 14 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures, we considered the risks of material misstatement in the College's financial statements that required special audit consideration. Although our report identified significant risks at the planning stage of the audit in our Annual Audit Plan, our risk assessment is a continuous process, and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. Following the decision by management to undertake a valuation of the land and buildings, a significant risk was added in relation to the revaluation.

Description of significant risk	Our response and conclusion
Management override of controls Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	**How we addressed this risk** We addressed this risk through performing audit work over: • Accounting estimates impacting on amounts included in the financial statements. • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. **Audit conclusion** Satisfactory assurance has been gained in respect of the presumed risk of management override of controls. We have no matters to report.
Revenue recognition There is a presumption under International Standards on Auditing that there is a significant risk of fraud and error in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular	**How we addressed this risk** We addressed this risk through performing audit work over: • The design and implementation of controls management has in place to ensure income is recognised in the correct period;

<table>
<tr><th>Description of significant risk</th><th>Our response and conclusion</th></tr>
<tr><td>focus by users of financial statements and can be subject to judgements as to when grant income should be recognised and if clawback conditions apply to the funding.
This risk only applies to the non-grant income generated by the College. The risk has been rebutted in relation to grant income received by the College, given the highly regulated nature, and therefore the low inherent risk of this income.</td><td>Cash receipts around year end to ensure they have been recognised in the appropriate year;
The judgements made by management in determining when non-grant income is recognised; and
For major grant income, obtaining counterparty confirmation.
Audit conclusion
Satisfactory assurance has been gained in respect of the presumed risk of error in revenue recognition.
We have no matters to report.</td></tr>
<tr><td>Expenditure recognition
For public sector organisations, the same risk in relation to fraud and error in respect of the timing of recording of transactions can apply to the recognition of non-payroll related expenditure and contractual obligations.
The pressure to manage expenditure to ensure that budgeted outcomes are achieved increases the risk surrounding fraudulent reporting of expenditure..</td><td>How we addressed this risk
We have undertaken a range of substantive procedures including:
The design and implementation of controls management has in place;
Testing of non-payroll expenditure around the year end to ensure transactions are recognised in the appropriate year;
Testing material year end payables, accruals and provisions; and
Reviewing judgements about whether the criteria for recognising provisions are satisfied.
Audit conclusion
Satisfactory assurance has been gained in respect of the risk of error in expenditure recognition. We have no matters to report.</td></tr>
<tr><td>Defined benefit pension scheme assets
There is a significant asset value used in calculating the Tayside Pension Fund (TPF) position as at 31st July 2023 and due to the nature of the pension scheme there is significant complexity in identifying the College’s share of the assets.
The complexity is created by factors such as:
The types of assets held by the pension scheme and their valuation bases; and
The calculation of the College’s share of the overall scheme assets requiring the rolling forward of quarter end valuations.</td><td>How we addressed this risk
We have undertaken a range of substantive procedures including:
Obtaining confirmation from the pension fund of the total value submitted to the actuary and details of how the College’s share of assets has been calculated; and
Reviewing this confirmation and considering if the information provided is sufficient and challenge any inconsistencies noted.
Audit conclusion
From the testing performed we are satisfied that the assets used in the calculation of the defined benefit pension position are materially stated.
We are also satisfied that the accounting policy to not recognise the notional surplus in respect of the</td></tr>
</table>

Description of significant risk	Our response and conclusion
	pension surplus is compliant with the applicable accounting standards.

Key Areas of Management Judgement

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

Description of management judgement	Our response and conclusion
Valuation of land and buildings The College's property, plant and equipment (PPE) portfolio totals over £77.3 million of assets (2022: £68.7million). The valuation of these assets requires expertise and significant estimation. In line with the requirements of the Government Financial Reporting Manual, the College has adopted a formal revaluation policy of an external valuation every five years, with a desktop, interim valuation performed during the five-year period. For the 2023 year-end Graham & Sibbald Chartered Surveyors) will provide the College with an interim valuation which will be used to update the carrying values. The College policy meets the requirement of the FE SORP that assets are valued sufficiently regularly so that the carrying value of the asset is not materially different from its fair value. Given the significance of the value of fixed assets held a misstatement in the valuation could be material to the financial statements.	**How we addressed this risk** We have undertaken a range of substantive procedures including: • Examining the professional qualifications of the valuer; • Challenge and substantiate the assumptions and the appropriateness of the date of the valuation used by management's valuer in completing the valuations; • Considering the impact of any uncertainty arising from the professional valuation of college land and buildings, assessing against third party benchmark information where appropriate. • Ensuring that valuations and impairments have been completed on the correct basis for each item and that movements are in line with expectation; and • Assessing whether the report produced by the valuer has been correctly reflected in the accounts. **Audit conclusion** Satisfactory assurance has been gained in respect of the valuation risk in relation to land and buildings. As part of the review it was identified that a proportion of the revaluation in the year related to the prior year and the financial statements were updated to reflect the prior year change. A further amendment was made in relation to two properties within the Kingsway Campus which were constructed using Reinforced Autoclaved Aerated Concrete (RAAC). On review of the economic life of these properties following recent concerns over the life span of this material, the valuer determined the remaining economic life would be reduced, and a

Description of management judgement	Our response and conclusion
	resultant reduction to the value of these properties was proposed and which was incorporated into the financial statements.
Early Retirement Provision The college includes a provision in the financial statements in respect of staff who receive an enhanced pension for accepting early retirement. The calculation of the value of this provision uses a model which incorporates actuarial assumptions.	**How we addressed this risk** We will consider the actuarial assumptions used by the actuary when calculating the provision value. **Audit conclusion** From the testing performed we have gained assurance that the early retirement provision is materially stated.
Valuation of Pension liabilities The College makes contributions to two pension schemes –the Scottish Teachers Superannuation Scheme (STSS) and the Tayside Pension Fund (TPF). While both are defined benefit schemes, it is not possible to identify the College's share of the underlying assets and liabilities in the STSS scheme and it is therefore accounted for as a defined contribution scheme. The College's share of the TPF's underlying assets and liabilities is identifiable and the net position is recognised in the accounts. Given the scale of the liability recognised, a misstatement in the reported position could be material to the financial statements.	**How we addressed this risk** We have addressed the risk by: • Considering the arrangements put in place, including existence of any relevant controls, for making estimates in relation to pension entries within the financial statements; and • Considering the reasonableness of the actuary's assumptions used in providing the College with information in the financial statements through the use of our internal experts. **Audit conclusion** From testing performed we have gained assurance that the liability portion of the pension scheme calculation is materially stated.

Qualitative aspects of the entity's accounting practices.

We have reviewed the College's accounting policies and disclosures and concluded they comply with the requirements of the 2019 Statement of Recommended Practice: Accounting for further and Higher Education and the Government Financial Reporting Manual 2022/23 and were appropriately tailored to the College's circumstances.

Draft financial statements and draft annual report were received from the College on 27 September 2023, prior to the start of audit fieldwork. Both draft financial statements and draft annual report were of a good quality.

Producing quality supporting working papers is a crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. Working papers provided for audit were of a good standard and staff were responsive to our requests during the audit.

Significant matters discussed with management.

At 31 July 2023 the College's share of the Tayside Pension Fund was recorded as a notional surplus as the value of the defined benefit obligation was less than the fair value of the plan assets at that date, meaning that the pension liability usually recorded is now a pension asset. We have had discussions with management as to the most appropriate accounting treatment and disclosure of the pension asset and management opted to not recognise the associated asset on the balance sheet due to the existence of an actuarial asset ceiling cap. We are satisfied that recognition policy is acceptable under the relevant accounting standards.

As part of the property revaluation, it was identified that a proportion of the uplift in value related to the prior year. The valuer provided a split of the valuation based on indexation for the previous year. The financial statements have been updated to reflect this and a prior year adjustment has been recorded, please see page 16 for more details.

Significant difficulties during the audit

We completed our audit in a hybrid manner with two onsite visits to the college and remotely. During the course of the audit, we did not encounter any significant difficulties and we have had the full co-operation of management. The draft accounts, working papers and annual report were all provided in line with the agreed timetable. We would like to express our thanks to management and officers for their co-operation throughout the audit.

3) Internal Control Recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit, we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist of improvements that could be made.

Priority Ranking	Description	Number of issues in current year
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	-
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	2
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	-

Deficiencies in internal control - Level 2

Description of deficiency and potential effects	Our recommendation and management response
Description of deficiency During our review of the valuation of land and buildings it was noted that the last valuation report and subsequent adjustment was performed in the year ended 31 July 2020 with no subsequent review of the fair value taking place until the current year audit. **Potential effects** As per the 2019 SORP: Accounting for Further and Higher Education where the asset is valued at fair value	**Recommendation** We recommend the policy in respect of reviews is updated to consider the change in valuation on an annual basis. Our position is that this does not need to be a full valuation report but can take the form of an indexation estimate from an appropriately qualified property valuation expert.

Description of deficiency and potential effects	Our recommendation and management response
there is a requirement to “Revaluations must be sufficiently regular so that the carrying value of an asset at the reporting date is not materially different from its fair value.”. Given the time difference between the valuation report and the value of the assets relative to the College’s balance sheet we anticipate that the land & buildings in the 2022 financial statements were materially misstated and as such a prior year restatement is required.	**Management response** Agreed. Fair value will be considered annually and appropriate methods, such as indexation, will be used to ensure assets are materially stated.
Description of deficiency During our review of fixed assets, we noted that there were assets carried forward on the fixed asset register and included in the financial statement disclosure note for which existence could not be verified. **Potential effects** There is a risk that redundant assets which are no longer in existence are still being disclosed in the financial statements at their gross cost and accumulated depreciation. We acknowledge this has no impact on the carrying value reported on the face of the balance sheet due to the age of these assets and the fact they are therefore fully depreciated.	**Recommendation** We recommend that management perform an annual review of the fixed asset register for the college and ensure they are satisfied that all assets being reported still exist and are in use. Any assets which are no longer in use or cannot be located should be accounted for as disposals. **Management response** Agreed. An exercise was caried out in 2022 and assets identified as being within their final year of economic life were removed from the fixed asset register during 2022-23. It should be noted that the assets not identified were few in number and often old descriptions were simply inadequate. In all cases historic cost was modest and net book value zero. A comprehensive review will however be conducted during 2023-24 and assets no longer in use removed.

4) Summary of Misstatements

We set out in this section the misstatements identified during the course of the audit, above the level of trivial, for adjustment:

Adjusted misstatements

This table below outlines the misstatements that have been adjusted by management during the course of the audit:

Details of adjustment	SOCI	SOCI	SoFP	SoFP	Effect on profit
	Dr £	**Cr £**	**Dr £**	**Cr £**	**£**
Operating deficit for the year before adjustments					(2,406)
Dr Accrued income			676,318		
Cr Accruals				(676,318)	
Being adjustment for yearly job evaluation accrual approved by the SFC. Management has included the income and expenditure postings in relation to this transaction but however omitted the corresponding balance sheet postings					
Operating deficit after adjustment					**(2,406)**

Unadjusted misstatements

The table overleaf outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

Details of adjustment	**SOCI**	**SOCI**	**SoFP**	**SoFP**	**Effect on profit**
	Dr £	**Cr £**	**Dr £**	**Cr £**	**£**
Dr Accruals			241,021		
Cr Trade Creditors				(241,021)	
Being adjustment to reclassify identified accrued balance to trade creditors as invoice was received at year end					
Dr Revenue	97,877				97,877
Cr Provision				(97,877)	
Being adjustment to recognise additional clawback provision from Mazars calculation using basis of calculation per the latest SFC Letter					
Total Unadjusted Misstatements					**97,877**

5) Wider scope

Our approach to Wider Scope work

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

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

Dimension	Description	Our approach
Financial management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	We have considered: • the monitoring of the effectiveness of internal control arrangements; • whether the College's budgetary control system is timely and accurate; and • whether and how the College has assessed their financial capacity and skills.
Financial sustainability	Extending our work on the going concern assumption in the financial statements looking forward two to five years from the reporting date, reviewing, and assessing the college's arrangements for financial planning and affordable and sustainable service delivery.	We have considered: • the financial planning system in place for short-, medium- and long-term periods; • the adequacy and accuracy of financial reporting arrangements; and • the reasonableness of affordability assumptions made in financial planning.
Governance and transparency	Governance and transparency cover the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information. The Governance Statement sets out the internal control arrangements and	We have considered: • the effectiveness of internal control arrangements; • the appropriateness of disclosures made in the Governance Statement; and • whether the disclosure requirements of the Accounts

Dimension	Description	Our approach
	governance framework in place for the year under review.	Direction and the Code of Good Governance for Scotland's Colleges have been met.
Value for money	Value for money concerns using resources effectively and continually improving services.	We have considered: • the College's evidence of providing value for money; and • the focus on improving value for money and the pace of change at the College.

Financial management

Dimension
Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Our conclusion
Dundee and Angus College has effective arrangements, including budgetary control, that help Board of Management members scrutinise finances.

Financial Performance
The College is required to report financial performance under the HE/FE SORP, resulting in the reported deficit of £2,406k in the Statement of Comprehensive Income. However, as a central government body, the College is also required under the Accounts Direction from the Scottish Funding Council to report financial performance as an 'adjusted operating position'. We set out these required positions below:

Area	2022-23 £000	2021-22 £000
Operating income	48,012	50,273
Staff costs	(34,882)	(38,154)
Operating expenditure	(14,035)	(12,886)
Exceptional restructuring costs	(1,501)	(1,287)
Operating Deficit for the year (FE/HE SORP basis)	**(2,406)**	**(2,054)**

Operating income has decreased by £2.2m in the year. This is mainly as a result of one-off capital grant income received in prior year not received in current year.

Staff costs decreasing are due to voluntary severance package carried out in the year under review leading to a reduction in staff numbers from 711 to 626 as disclosed in the financial statements. The exceptional restructuring costs relate to the costs of the voluntary severance packages.

Operating expenditure has increased by £1.2m from the previous year. This is mainly due to increased depreciation on fixed asset additions in the year.

Adjusted operating position
The table above sets out the financial position in accordance with the SORP requirements. The table below reflects the 'adjusted operating position' as required by the Accounts Direction set by the SFC. The adjusted operating position removes more volatile accounting entries, such as the valuation of pensions and those that do not have an immediate cash impact on the College. Full details of the adjustments included are shown on page 22 in the accounts.

Area	2022-23 £000	2021-22 £000
Deficit before other gains and losses	(2,406)	(2,054)
Add back: - Depreciation (net of deferred capital grant release)	1,659	573
- Exceptional non restructuring costs - Impairment	-	-
- Non-cash pension adjustments – Net service cost	1,110	3,517
- Non-cash pension adjustments – Net interest cost	(321)	271
- Non-cash pension adjustment – early retirement provision	-	-
Deduct: - CBP allocated to loan repayments and other capital items	(128)	(3,300)
- Revenue funding allocated to loan repayments	-	(457)
Adjusted operating surplus	**(86)**	**(1,450)**

The Accounts Direction issued by the SFC for 2022/23 requires Colleges to submit the adjusted operating position calculation with draft accounts to the SFC for review before the accounts are signed off.

The table above shows that once the non-cash and other applicable adjustments are made, the College has a deficit in the year.

Budgetary process

We have reviewed and considered the budgetary processes and controls and budget monitoring arrangements in place at the College. Our work consisted of a review of budget monitoring reports and committee papers along with attendance at committees. Overall, we consider that the Board of Management obtains regular and timely financial information that reflects the actual financial position.

We note that budget reports are produced on a timely basis and considered by the appropriate committee throughout the year. Budget reports and forecasts were appropriately updated based on prudent assumptions, there was considered to be no unreasonable movements throughout the quarterly forecasts and budgets considering the ongoing impact of the recovery from the Covid-19 pandemic.

The Finance and Property Committee considers the management accounting pack regularly, reporting to the Board of Management. Minutes of the meetings document the level of challenge to the financial performance.

Internal controls

As part of our audit, we have considered the internal controls in place that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have also considered the work of internal audit, from individual reviews of financial systems and their annual audit opinion on the control framework in place at the College.

We conclude that the processes and controls in place at the College are operating effectively. The College has all the expected control, risk, performance and financial arrangements in place. There are a series of regularity documents including standing orders, articles of governance, code of conduct, and financial regulations intended to ensure regularity of transactions.

Prevention and detection of fraud and irregularity

Management and the Audit and Risk Committee, as those charged with governance, also have responsibilities in respect of fraud. They are responsible for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with laws and regulations.

We have a responsibility to review the College's arrangements for the prevention and detection of fraud. Our audit work was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the arrangement in place to be satisfactory and identified no material misstatements resulting from fraud or irregularity.

Financial sustainability

Dimension

Financial sustainability extends the going concern assumption from the financial statements, looking forward two to five years, reviewing and assessing arrangements for financial planning and affordable and sustainable service delivery in this timescale.

Our conclusion

Dundee and Angus College has adequate financial planning arrangements in place, including budgetary control, that help the Board members scrutinise finances.

Identified significant risks to our wider scope work

As part of our planning procedures, we considered whether there were significant risks that would impact on any of the four areas of our wider scope work that would require special audit consideration. We set out the identified risk to this area of wider scope and how we addressed the risk below.

Description of significant risk	Our response and conclusion
Financial sustainability We are aware that the overall College Sector in Scotland is having to respond to the financial pressures of inflating costs in a period when core grant income is flat. We have been made aware that the College is projecting a deficit full-year position. Core funding is flat for 2023/24 and costs are Experiencing inflationary pressures. The above situation means that the College will have to make decisions in order to appropriately balance finances. Given the level of sector wide uncertainties around the sufficient of future funding and of the general economic environment that has arisen following the pandemic, there is a risk the timing of the future funding gap could be accelerated and / or additional funding not being made available from the SFC.	**How we addressed this risk** We have addressed the risk by: • Reviewing the forecast financial position in the three-year financial plans submitted to SFC; • Considering alternative plans being considered by the College to ensure a balanced budget is achieved; • Reviewing the financial reporting arrangements in place at the College; and • Assessing how management have considered the longer term implications of Covid-19 outbreak and the combined impact of the cost inflation and income levels. **Audit conclusion** During 2022-23, the College has prepared a three-year forecast which highlights a future funding gap. The College has taken steps to identify areas where savings can be made to mitigate the funding gap in the FFR, and this does result in a surplus being forecast for 2025-26. However, given the level of sector wide uncertainties around future funding and of the general economic environment that has arisen following Covid-19, there is a risk the timing of the future funding gap could be accelerated, or made greater without the plans identified by the College being fully implemented and / or additional funding not being made available from the SFC. As a result, we consider that there remains a risk that the College will not remain financially sustainable in the medium to longer term.

Financial Planning

Dundee and Angus College provides three year forecasts to the SFC annually or as required. The College believes that the SFC will provide the liquidity funding required and therefore it is appropriate to prepare the accounts using a going concern basis.

This year, the College has produced a three-year Financial Forecast Return (FFR) to the SFC in line with current SFC guidance.

Area	Forecast 2023-24 £000	Forecast 2024-25 £000	Forecast 2025-26 £000
Adjusted operating deficit/surplus	(210)	551	1,789

Through the FFR process and other financial reporting throughout the year, the College and its Board of Management have a clear view of the financial challenges and long-term risks faced. FFR planning assumptions, as advised by the SFC, have been considered fully before use.

The FFR for this period includes providing for the cost of living pay awards in line with public sector pay policy, and for the expected cost of implementing the support staff and middle managers job evaluation (as the expectation is that this would be paid in 2024). The outcome of this remains uncertain, and if negotiations result in higher levels than expected, this will have a further negative impact on the budget for 2023-24.

Further detail on the College's three-year forecast is included in the table below:

Area	Forecast 2023-24 £000	Forecast 2024-25 £000	Forecast 2025-26 £000
Total Income	47,242	46,111	46,091
Staff costs	(33,048)	(32,455)	(32,291)
Exceptional restructuring costs	(1,050)	(750)	-
Total other expenditure	(14,754)	(13,755)	(13,411)
Operating deficit before other gains and losses	**(1,610)**	**(849)**	**389**
Add back: Depreciation – net of deferred capital grant	1,400	1,400	1,400
Adjusted operating deficit	**(210)**	**551**	**1,789**

These results are based on the assumptions provided by the SFC and are not deemed to be a fixed forecast or strategic plan. The College is actively considering a range of options in relation to the coming years and will continue to work to refine the income and costs reflected in their financial plans to better reflect actual expectations.

The forecasts have been completed based on the assumptions provided by the SFC on their website.

Looking ahead to the upcoming years, Management and the Board of Management are fully committed to exploring all efficiency saving possibilities, new sources of commercial income and consideration of changes to working practices.

Governance and transparency

Dimension

The Governance Statement sets out the internal control arrangements and governance framework in place for the year under review.

Our conclusion

Dundee and Angus College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Management, which are appropriately reflected in their governance statement.

<u>Governance arrangements</u>

Our work in this area has considered the overall governance arrangements in place at the College, reviewed the financial and performance reporting to the Board of Management, and reviewed the minutes of committees to inform our assessment of the appropriateness of the governance structure. We have also attended Audit & Risk Committees during the year.

Financial papers submitted to committees are relevant and timely. Each paper has a summary setting out the purpose of the paper and the action required by the members. Minutes are understandable and contain detail of discussions and rationale for decision making.

At 31 July 2023, the board comprised of 17 Board members, including the principal, two student members, three staff members (two teaching and one non-teaching), and 11 external members.

The College do aim to have equality and diversity in their board representation, and this is considered actively at each round of recruitment alongside the strengths and skills required for the role to ensure the Board has sufficiently qualified and skilled members. It can be difficult to ensure an equal gender split of members depending on the applications for the vacancies the Board receive at the time of vacancy.

The key committees' membership comprises of, and are chaired by Board members, with each also containing the principal, with the exception of the Audit & Risk Committee. In addition, the Chair of the Board is also not permitted to be a member of the Audit & Risk Committee. Appropriate College officers attend committees and present reports as required.

During the year to 31 July 2023, Board and Committee meetings were held physically with the ability for attendees to dial in remotely.

<u>Governance Statement</u>

As part of our audit, we have read the governance statement included in the annual report. The governance statement sets out the corporate governance framework in place throughout the reporting year, the internal controls in operation, the work of internal audit and the overall efficiency and effectiveness of the governance framework.

The governance statement confirms the College's compliance with the 2022 Code of Good Governance for Scotland's Colleges.

We are required to read and provide an opinion on the governance statement. In our opinion, the information contained within is consistent with the financial statements. We also consider that the governance statement has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and further directions made by the Scottish Funding Council.

<u>Internal audit</u>

An effective internal audit service is an important element of any organisation's governance arrangements. Internal audits provide the College with independent assurance on internal control and corporate governance processes. The internal audit function at the College is provided by Henderson

Loggie. Internal Audit have attended Audit & Risk Committees throughout the year and have produced 8 reports to support the overall Annual Internal Audit Opinion. The opinion given by internal audit was: ‘In our opinion, Dundee and Angus College has a framework of internal controls in place that provides reasonable assurance regarding the organisation’s governance framework, internal controls, effective and efficient achievement of objectives and the management of key risks’.

Transparency

Transparency means that service users and the public have access to understandable information about how the College is making decisions and using its resources. There is a commitment to transparency, with the minutes and papers of the Board of Management and key committees being available on the website.

Value for Money

Dimension
Value for money concerns using resources effectively and continually improving services.

Our conclusion
Dundee and Angus College has an effective performance management framework in place that supports progress towards the achievement of value for money.

Performance management
The College did not meet its Regional Outcome Agreement (ROA) target credits by 3.8% and have made provision with respect to grant income to be clawed back, the College also achieved an adjusted operating deficit in the year. There is close monitoring of the delivery of the ROA and financial performance reports provide sufficient information to allow members to understand performance. Budget monitoring information provides a detailed analysis of variances allowing budget to be appropriately managed. Through this management of the 2022/23 budget there is clear evidence that the College understands cost drivers and is in control of costs as far as can be reasonably expected given the circumstances of the year.

Regularity
As part of our audit of the College's financial statements, we are required by the Public Finance and Accountability (Scotland) Act 2000 to give an opinion on the regularity of expenditure and receipts shown in the financial statements. Regular expenditure and income that which has been incurred / obtained in line with guidance issued by the Scottish Ministers and the terms and conditions of funding of the Scottish Funding Council.

The College has arrangements to monitor the requirements of the Scottish Funding Council, Audit Scotland and other regulatory or advisory bodies to ensure it complies with the terms and conditions of funding including regular reporting of financial and operational performance to the Board of Management and its committees.

Our review found an effective control environment exists over regularity of expenditure and receipts. No instances of non-compliance with Scottish Funding Council terms and conditions were noted.

6) Our fees

Fees for work as the College's appointed auditor

We reported our proposed fees for the delivery of our work in our Annual Audit Plan, presented to the Audit and Risk Committee on 26 May 2023. Having completed our work for the 2022-23 financial year, we can confirm that our final fees are as follows:

Service	2022/23 proposed fee £	2022/23 final fee £
Auditor remuneration	49,700	49,700
Pooled costs	(7,290)	(7,290)
Audit support	1,280	1,280
Sectoral cap adjustment	(3,540)	(3,540)
Total fee	**40,150**	**40,150**

We confirm that these fees are in line with the scale fee set by Audit Scotland. We also confirm that we have not undertaken any non-audit services for the College in the year.

Appendix 1 – Independence

As part of our ongoing risk assessment, we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Annual Audit Plan and therefore we remain independent.

Contacts

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