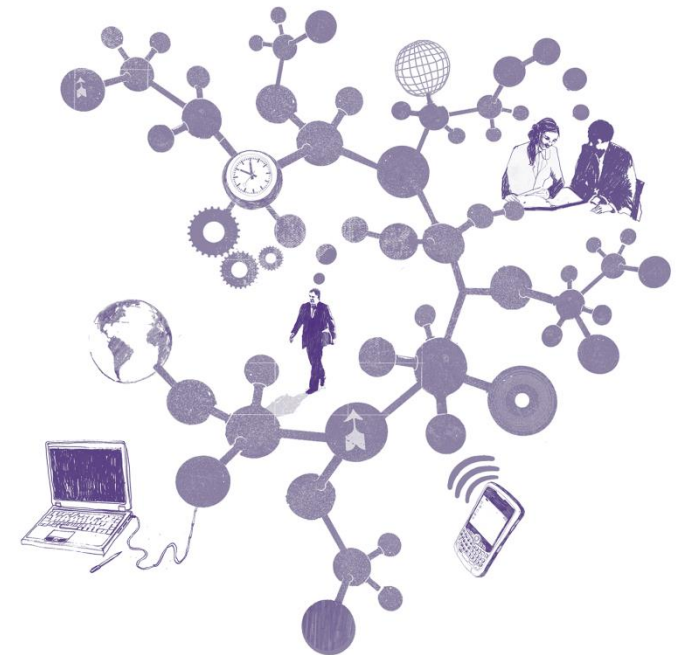


Financial Statement Audit Findings for Dumfries and Galloway College

Year ended 31 July 2013



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. 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 will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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.

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Section 1: Executive summary

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Executive summary

Introduction

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP, Dumfries & Galloway College ("the College") and the Auditor General of Scotland. The purpose of this report is to highlight the key issues arising from the audit of the College's financial statements for the year ended 31 July 2013.

Under the Audit Scotland Code of Audit Practice we are required to report whether, in our opinion, the College's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the Statement of Recommended Practice: accounting for further and higher education (the SORP).

This report meets the mandatory requirements of the International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee.

Scope of our work

During the course of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan in May 2013.

We received draft financial statements and a number of accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Financial Statements Opinion

We have issued an unmodified opinion on the College's 2012-13 financial statements.

We have identified no material adjustments.

Summary of Key Findings

Reporting area	Our Summary
Financial Statements	<ul style="list-style-type: none"> ■ We have issued an unmodified opinion on the financial statements of Dumfries & Galloway College ■ We identified no material adjustments during our audit.
Financial position	<ul style="list-style-type: none"> ■ The financial statements record a net surplus on the provision of services of £34k (2012: surplus of £24k). ■ At 31 July 2013, the College had a total reserves balance of £11,060k (2012: £18,792k), of which £4,314k is available as a general reserve (2012: £3,409k).
Internal controls	<ul style="list-style-type: none"> ■ We reviewed the Statement of Corporate Governance and were satisfied that disclosures are in line with our knowledge of the College and that the statement is underpinned by a robust assurance framework, developed with internal audit. ■ We identified no significant deficiencies in internal controls during our audit.

Looking forward

Matters arising from the financial statements audit and review of the College's internal control arrangements have been discussed with the Chairman of the Audit Committee.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
December 2013

Section 2: Financial Results

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Financial Results

Introduction

The College has reported a relatively stable financial position in the current financial year.

Key Areas of Expenditure

The College reported expenditure of £12,304k in the current financial year. The table below shows a breakdown of this expenditure figure

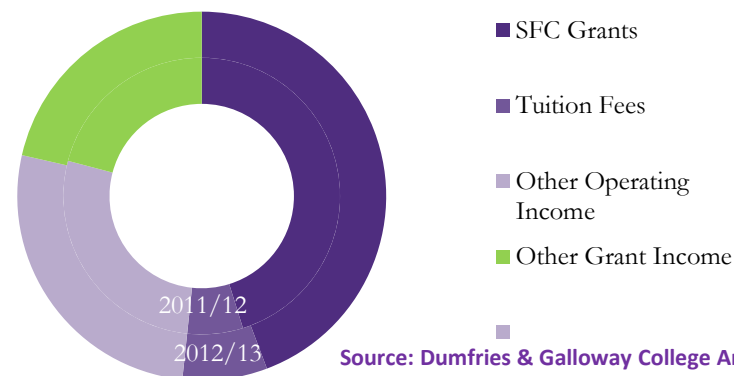
	2013	2012
	£'000	£'000
Staff Costs	6,957	6,840
Depreciation	1,405	1,413
Other operating expenses	3,942	3,862
	12,304	12,115

Source: Dumfries & Galloway College Annual Report 2012/13

Staff costs, depreciation and other operating expenses are broadly in-line with the prior year, as expected, following no major changes to the operations of the College.

Income for the year

The College receives income from multiple sources as shown in figure 1 below. It is clear from this analysis that the main source of funding is grants from the Scottish Funding Council



Source: Dumfries & Galloway College Annual Report 2012/13

Income is in-line with the prior year with an overall increase of £200k. There has been a small reduction in SFC grant income following budget cuts. The slight drop in this revenue source has been countered by an increase in Tuition Fee income. There has been an increased number of students on work-based courses and increased further study trips, hence a higher level of funding received by the College. Additionally, the Skills Development Scotland Employability contract has increased partnership income in 2012/13.

Financial Results

Financial Position

The College's balance sheet reflects a positive financial position with general reserves of £38,562k.

	2013	2012
	£'000	£'000
Non- Current Assets	41,308	50,927
Current Assets	5,174	4,745
Current Liabilities	(2,691)	(2,550)
Non current liabilities	(5,229)	(6,024)
Total net assets	38,562	47,098

Source: Dumfries & Galloway College Annual Report 2012/13

The most substantial change to the balance sheet in the year 2012/13 is the revaluation of the College's land and buildings. This resulted in a realised revaluation loss of £8,226k.

Looking Forward

Dumfries and Galloway College's objectives remain broadly similar to those in 2012/13 and achieving the targets set out in the Outcome Agreement for 2013/14 will be the main focus for the Board and Senior Management Team going forward. The public finances remain challenging, as does the ability to prepare students for the transition into employment, with youth unemployment remaining a key political issue.

There will be considerable pressure on the finance team to make the transition to the 31 March year end timetable, as well as transferring to a new financial reporting framework.

The Scottish Funding Council's move to a three year funding allocation cycle from 2014/15 should make it easier for Dumfries and Galloway College to plan more accurately.

Section 3: *Audit findings*

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Audit Findings

Introduction

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, which was issued to the College in May 2013.

We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Audit opinion

We have issued an unmodified opinion concluding that the financial statements are prepared in accordance with Part VII of the Local Government (Scotland) Act 1973 and the Code. Our audit opinion is set out in Appendix A.

Changes to the audit plan

During the conduct of our audit, we have not had to alter or change our audit plan issued in May 2013.

Table 1: Audit findings against significant risks

Under International Standard on Auditing (ISA) 315, we are required to identify and assess the risks of material misstatement within the College's financial statements. We identified those areas that we consider to risks within our Audit Plan 2012-13. We outline our response to the significant risks of material misstatement which we identified in the Audit Plan below.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	Existence and occurrence of tuition fee revenues	<ul style="list-style-type: none"> Review of the controls in place over the tuition revenues system Substantive testing of a sample of 25 transactions, with no issues arising. Analytical review of tuition and fee revenue. 	Our audit work on controls and substantive testing on income has not identified any issues in respect of tuition fee revenues.
2.	Completeness of employee remuneration accruals	<ul style="list-style-type: none"> We completed detailed substantive testing of the payroll processes on a sample basis at the year end. This testing provided assurance that payroll processes were operating in line with requirements. Additional testing was conducted at the year end to provide assurance over the figures in the accounts. This testing included analytical analysis of the detailed payroll data and of the reported balances. Analytical review of employee remuneration accruals. 	We gained sufficient assurance over payroll processes to conclude that there are no material misstatements.
3.	Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	<ul style="list-style-type: none"> Review and testing of revenue recognition policies Testing of material revenue streams A review of unusual significant transactions 	Our audit work has not identified any issues in respect of revenue recognition.

Table 1: Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
4.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management • Testing of journals entries • Review of accounting estimates, judgements and decisions made by management • A review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>
	Risks identified during audit fieldwork	Work completed	Assurance gained and issues arising
1.	<p>Accounting for VAT under the Lennartz Scheme</p> <p>We understand the College implemented to delay the payment of VAT in relation to campus development expenditure. We further understand that the board of directors is assessing whether to opt-out of the scheme.</p>	<ul style="list-style-type: none"> • We reviewed and tested the accounting for VAT against HMRC's guidance on the Lennartz Mechanism of accounting for VAT. 	<p>Our audit work has not identified any issues in relation to the Lennartz scheme.</p>
2.	<p>Dispute with Miller Construction</p> <p>From review of the financial statements, it was noted that a retention of £120k owed to Miller Construction was still held at the year end. A further amount of £104k relating to a gas charge for the property from 2008/09 is also held within accruals at the year end. We understand this was originally paid by Miller Construction, as it had not been invoiced directly to the College.</p>	<ul style="list-style-type: none"> • We have reviewed the documentation for the retention and the calculation of the gas accrual. • We have discussed the progress of the dispute with management. 	<p>Based on discussions with yourselves, we understand an agreement with Miller Construction is imminent. Once a satisfactory conclusion is reached, we understand the retention monies will be repaid to Miller Construction together with payment of the outstanding gas charges.</p>

Table 2: Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the College's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<ul style="list-style-type: none"> Income from tuition fees is recognised in the year in which it is receivable and includes all fees chargeable to students or their sponsors Income from grants, contracts and other services rendered is included to the extent of completion of the contract or service concerned Income from donations is credited to the income and expenditure account in the year in which it is received, unless specific restrictions apply Income from short-term deposits and endowments is credited to the income and expenditure account in the period in which it is earned 	<ul style="list-style-type: none"> The revenue recognition policies are appropriate under the SORP In a small number of cases, judgements are made regarding levels of accrued income, and no issues have been found with this from the audit. The draft accounts outlined an appropriate revenue recognition policy as part of Note 1. 	<p style="text-align: center;">●</p>

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Table 2: Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – useful life of assets and capital equipment – pension fund valuations and settlements – revaluations – impairments – provisions 	<p>For all material items, we have reviewed:</p> <ul style="list-style-type: none"> • the appropriateness of your policies under the SORP • the extent of judgement involved • the potential financial statement impact of different assumptions • the adequacy of disclosure of the accounting policy <p>We have no concerns to highlight to the Audit Committee.</p>	●
Other accounting policies	<ul style="list-style-type: none"> • We have reviewed the College's policies against the requirements of the SORP 	<ul style="list-style-type: none"> • Our review of accounting policies has highlighted that additional disclosure regarding operating leases is required under the SORP • This issue is not significant enough to have a material impact on the financial statements, however for best practice we have suggested suitable wording for an additional accounting policy 	●

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Our findings on internal controls

The purpose of an audit is to express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. During the course of our audit, we have concluded that there are no deficiencies in internal control of sufficient importance to merit being reported to you in accordance with auditing standards.

Table 3: Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been received from the College.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any material related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the College's decision to prepare the financial statements on a going concern basis.

Looking forward

Key changes for 2013-14

In this section we highlight the key changes affecting the financial statements in 2013-14.

Reclassification of Colleges

The Further and Higher Education (Scotland) Act 1992 resulted in a total of 43 institutions being classified as Colleges of Further Education from 1 April 1993. These institutions have operated within the Non-Profit Institutions Serving Households section since this date. In October 2010 the UK Office of National Statistics made a decision to reclassify further education colleges to central government bodies from 1 April 1993.

This decision will have a significant impact on the College financial reporting arrangements. The key changes will be as follows:

- the year end will move from 31 July to become in line with central government year end of 31 March;
- the accounting framework will change from the SORP to the HM Treasury Financial Reporting Manual which operates under International Financial Reporting Standards; and
- the governance framework will be required to be compliant with the Scottish Public Finance Manual.

The College will have to consider the implications of this decision and how the changes can be managed to deliver the reporting requirements.

Section 4: Governance

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Governance

Introduction

The College's governance and risk management arrangements continue to operate effectively.

Financial Monitoring

The College has a responsibility to monitor and control the financial position. In order to gain assurance over the adequacy of the processes we reviewed the budgeting and treasury management processes in place and found no issues.

Regionalisation

As a result of the Griggs report on the Review of Further Education Governance in Scotland a number of institutions have merged on a regional basis.

Due to its geographic location, Dumfries and Galloway College did not merge as part of this process.

We have undertaken a review of governance arrangements in place at the College as part of our audit work. We identified no weaknesses in the entity level controls.

Prevention and Detection of Fraud and Irregularity

The integrity of public funds is a key concern for the organisation and for auditors. As external auditors, we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities. Our enquiries of management and the College's internal auditors found that there were no internal frauds during 2012-13. We conducted testing on journal entries and related party transactions to highlight any unusual transactions. There were no issues arising from this testing.

Section 5: Performance

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Performance

Introduction

Outcome agreements were introduced by the Scottish Funding Council (SFC) in Academic Year 2012-13, and set out what colleges and universities plan to deliver in return for their funding from SFC. Their focus is on the contribution that the colleges and universities make towards improving life chances, supporting world-class research and creating sustainable economic growth for Scotland.

The College have a range of objectives and activities set by the SFC as follows:

- compliance with the terms of the Financial Memorandum between the SFC and the College
- maintaining the provision of acceptable quality and developing and implementing a satisfactory quality improvement strategy
- following public sector pay policy set by HM Treasury
- provision of data returns requested by the SFC to the specific standards and deadlines set
- discussion with and advanced approval from the SFC before any of the capital maintenance funds are spent on items of specialised equipment to support the curriculum
- the College must notify Skills Development Scotland (SDS) within five working days of a young person leaving

Section 6: Fees, non audit services and independence

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Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm that there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Fee payable to Audit Scotland	13,800	13,800
Total audit fees	13,800	13,800

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 7: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

This Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Audit Scotland.

We have been appointed as the College's independent external auditors by the Auditor General for Scotland, the body responsible for appointing external auditors to the Further Education sector in Scotland. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by Audit Scotland on behalf of the Auditor General and includes nationally prescribed and locally determined work. Our work considers the College's key risks when reaching our conclusions under the Code.

It is the responsibility of the College to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the College is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion

We anticipate we will provide the College with an unmodified audit report

Independent auditor's report to the members of the Board of Management of Dumfries and Galloway College, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of [insert name of body] for the year ended 31 July 2013 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise Income and Expenditure Account and Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Board of Management and auditor

As explained more fully in the Statement of Responsibilities of the Board of Management, the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the financial statements. It also

involves obtaining evidence about the regularity of expenditure and income. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the body's affairs as at 31 July 2013 and of its **surplus [deficit]** for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.

Opinion on regularity

In my opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinion on other prescribed matters

In my opinion the information given in the Operating and Financial Review for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Statement of Corporate Governance and Internal Control does not comply with Scottish Funding Council requirements.

I have nothing to report in respect of these matters.

Appendix B: Draft Letter of Representation

Grant Thornton UK LLP
7 Exchange Crescent
Conference Square
Edinburgh
EH3 8AD

Dear Sirs

Dumfries and Galloway College: Financial Statements for the Year Ended 31 July 2013

This representation letter is provided in connection with the audit of the financial statements of Dumfries and Galloway College for the year ended 31 July 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education Institutions (the SORP). I confirm that to the best of my knowledge and belief having made such inquiries as I considered necessary for the purpose of appropriately informing myself:

Financial Statements

- i. I have fulfilled my responsibilities, as set out in the Statement of Responsibilities for the Statement of Accounts, for the preparation of the financial statements in accordance with the Financial Memorandum agreed between the Scottish Funding Council and the College. In particular the financial statements give a true and fair view of Dumfries and Galloway College's state of affairs as at the 31 July 2013 and of its income and expenditure for the financial period.
- ii. I acknowledge my responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- iii. Significant assumptions used by me in making accounting estimates, including those measured at fair value, are reasonable.
- iv. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the SORP.
- v. All events subsequent to the date of the financial statements and for which the SORP requires adjustment or disclosure have been adjusted or disclosed.
- vi. The financial statements are free of material misstatements, including omissions.

Information Provided

I have provided you with:

- i. access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- ii. additional information that you have requested from me for the purpose of your audit; and
- iii. unrestricted access to persons within the entity from whom you determine it necessary to obtain audit evidence.

I have disclosed to you the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

I have disclosed to you my knowledge of fraud or suspected fraud affecting the entity involving:

- i. management;
- ii. employees who have significant roles in internal control; or
- iii. others where the fraud could have a material effect on the financial statements.

I have disclosed to you my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

I have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which I am aware.

Yours faithfully

XXX
Chief Finance Officer



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