Dumfries and Galloway College

Annual Report to the Board of Management and the Auditor General for Scotland 2014/15 (sixteen months ending 31 July 2015)

December 2015

Executive Summary

Overall summary for the College

Financial statements

- The 2014/15 financial statements cover a sixteen month period for 1 April 2014 to 31 July 2015.
- Subject to the satisfactory completion of the audit, we aim to give an unqualified opinion on both the financial statements of the College and on the regularity of transactions undertaken for the 2014/15 financial year.
- The draft financial statements and supporting working papers were provided at the start of the audit. Working papers were a good quality, and queries were responded to promptly. The Remuneration Report was not available at the start of the audit, but was provided during the course of the audit.
- Our work identified no adjustments within the primary financial statements. Two adjustments were identified within the Remuneration Report. Minor changes were also made to disclosure notes to improve readability. Management have made all suggested adjustments in the final version of the financial statements.
- We operate a risk based approach when planning our audit work and focus our audit effort on the areas with the highest risk. International Standards on Auditing identify two default presumed significant risks. These are the risk of management override of controls, and the risk of fraudulent transactions within revenues. As high value and high throughput material systems, we identified reasonably possible risks of the understatement of operating expenses and employee remuneration. We have carried out a review of the control environment for each of the systems and substantively tested the balances in the accounts, with no issues arising from this work.
- We applied overall materiality of £0.35 million to the financial statements.
- We have reviewed key judgments made by management and disclosure of accounting policies and found all policies to be in line with Statement of Recommended Practice (SORP) requirements.

Governance

- The College reported through their Statement of Corporate Governance and Internal Control that there were adequate governance processes in place during 2014/15. Our audit work supports this assessment.
- We have reviewed the processes and procedures for preparing the Statement of Corporate Governance and Internal Control to ensure compliance with the Scottish Funding Council (SFC) requirements and in accordance with the 'Code of Good Governance for Scotland's Colleges'. We found the assurance arrangements to be well structured.
- During 2014/15 the College donated £0.018 million to the arms length foundation trust 'Scottish Colleges Foundation'. We reviewed the arrangements in place to satisfy ourselves with the governance arrangements and independence of any transactions the College makes. We are satisfied that the Trust is independent from Dumfries and Galloway College.
- Risk Management policies were in place in 2014/15 and were deemed to be reasonable and appropriate by the Board of Management, with regular update and scrutiny by the Audit Committee.
- Key elements of the College's governance framework include a Board of Management and a range of Committees, including the Audit Committee. Key governance procedures include appropriate policies to prevent and detect fraud and corruption and policies on anti money laundering and 'whistleblowing'.
- The College reported no incidents of fraud during 2014/15.

Performance

- The 'Vision 2020' sets out the strategic themes, priorities and objectives for the College. This is underpinned by the strategic outcomes in the Scottish Funding Council Agreement 2014/15 to 2015/17 which is updated annually.
- The College reported a deficit position of £0.502 million in the 2014/2015 financial statements. £0.296 million of the deficit is due to 'technical' accounting requirements regarding the use of depreciation. The balance sheet has net assets of £31.778 million including a net pension liability of (£5.219 million).
- The most significant element of running costs is staff costs which accounts for 57% of running costs. This is a key performance indicator that is monitored closely.
- In accordance with Scottish Funding Council requirements, the College monitors and reports progress on national priorities regularly. This includes trend analysis and sector average comparisons.
- The College nearly achieved their targeted weighted student numbers for the 2014/15 academic year, with 42,423 units achieved against a target of 42,529 (0.0025%).
- We are required to complete an Audit Scotland questionnaire to inform the 2016 'Scotland's Colleges report The overarching theme is financial capacity which covers financial planning and performance, severance, governance and transparency.

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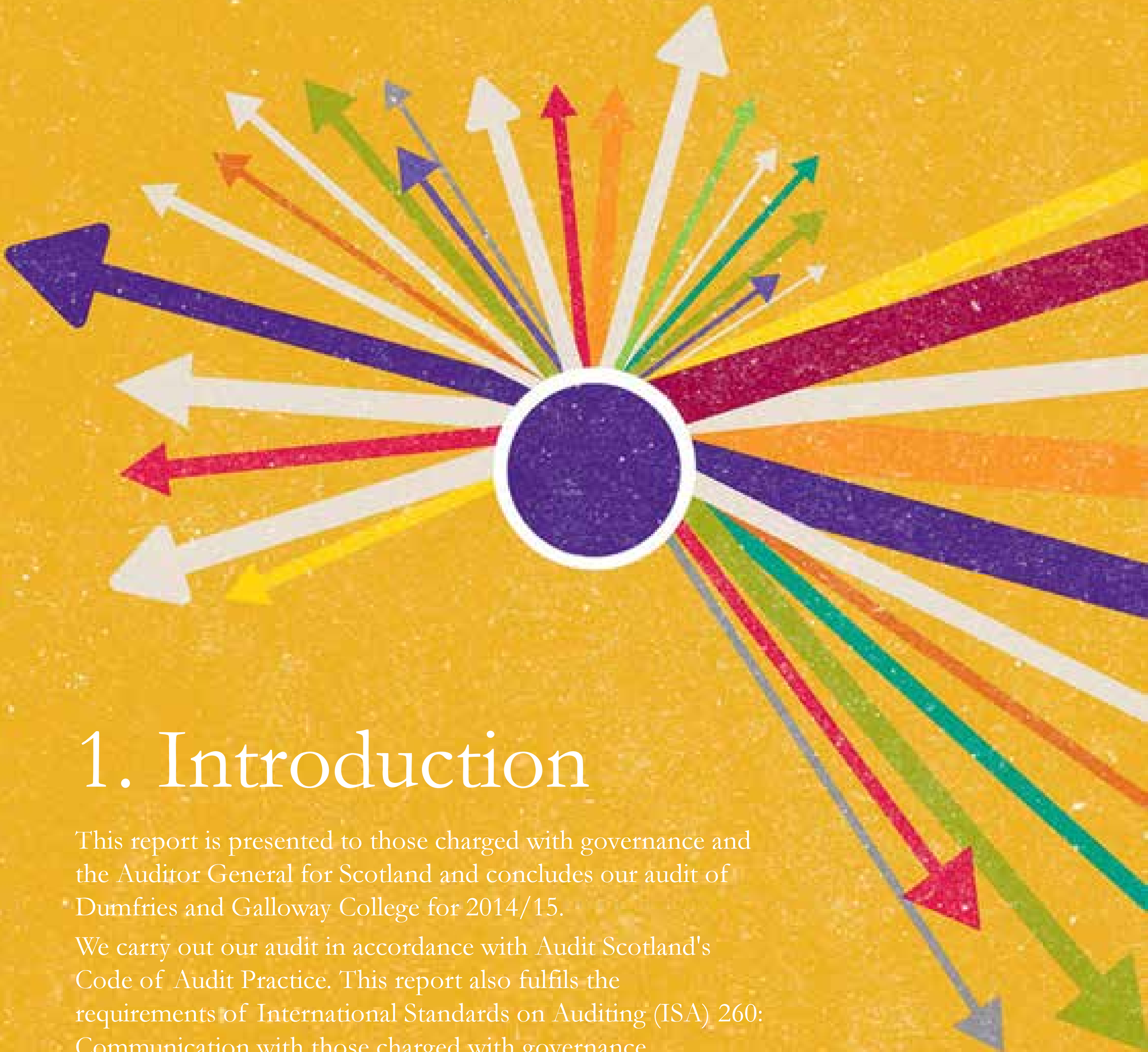


1. Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of Dumfries and Galloway College for 2014/15.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

Introduction

Purpose of this report

The Auditor General for Scotland appointed Grant Thornton UK LLP as auditor of Dumfries and Galloway College ('the College') for the 5 year period 2011/12 to 2015/16. This appointment is made under the Public Finance and Accountability (Scotland) Act 2000.

Our annual audit report is addressed to those charged with governance at the College, and the Auditor General for Scotland. The report summarises our opinion and conclusions on significant issues arising from our audit. The scope of our audit work was set out in our Audit Plan, which was presented to the Audit Committee on 12 May 2015.

The College's responsibilities

It is the responsibility of the College and the Accountable Officer to prepare the financial statements in accordance with the Statement of Recommended Practice: accounting for further and higher education (the SORP) and the Accounts Direction issued by the Scottish Funding Council (the Accounts Direction).

This means the College must:

- prepare financial statements which give a true and fair view of the financial position of the College and its income and expenditure for the period to 31 July 2015
- maintain proper accounting records which are up to date
- take steps to prevent and detect fraud and other irregularities.

The College is also responsible for establishing proper arrangements to ensure that:

- public business is conducted in accordance with the law and proper standards
- public money is safeguarded and properly accounted for
- economy, efficiency and effectiveness is achieved in the use of resources.

Our responsibilities

It is a condition of our appointment that we meet the requirements of the Code of Audit Practice ('the Code') which was published in May 2011, and is approved by the Accounts Commission and the Auditor General for Scotland.

The Code highlights the special accountabilities that are attached to the conduct of public business and the use of public money. This means that audits in the public sector audit must be planned and undertaken from a wider perspective than the private sector. Our responsibilities are outlined in **Figure 1**.

We are required to provide an opinion on the financial statements and Statement of Corporate Governance and Internal Control. Under the Code we are also required to review and report on the governance arrangements.

Under the requirements of the International Standard of Auditing (UK and Ireland) ('ISA') 260: Communication with those charged with governance, we are required to communicate audit matters arising from the audit of the financial statements to those charged with governance. This annual report to the College, together with previous reports to the Audit Committee throughout the year, discharges our ISA 260 commitments.

Acknowledgements

We would like to take this opportunity to record our thanks for the assistance provided by the Vice Principal – Corporate Services & Governance, the Finance Manager and the finance team during the course of our work.

Figure 1: Our responsibilities under the Code of Audit Practice

Financial Statements	Provide an opinion on: • whether the financial statements provide a true and fair view of the financial position of the College • whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements • the regularity of expenditure and income.
Corporate governance	Review and report on the College's corporate governance arrangements as they relate to: • the College's corporate governance and systems of internal control, including reporting arrangements • the prevention and detection of fraud and irregularity • standards of conduct and arrangements for the prevention and detection of corruption.
Performance	• The Public Finance and Accountability (Scotland) Act 2000 gives the Auditor General the right to initiate examinations into the economy, efficiency and effectiveness with which the College and other public bodies have used their resources to discharge their functions. • In accordance with guidance issued by Audit Scotland, auditors may be requested to participate in a performance audit, an examination of the implications of a particular topic for the College at a local level or a review of the College's response to national recommendations.

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

2. Financial statements

Financial Statements

Introduction

Within this section of the report, we present our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan on 12 May 2015.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

Our Review of the Financial Statements

The draft financial statements and supporting working papers were provided at the start of the audit and queries were responded to promptly. The working papers were prepared to a good standard. A remuneration report was a new requirement for 2014/15, and this was provided for audit during the course of the audit.

As part of our work on the financial statements we are required to review the narrative elements of the financial statements (including the Operating and Financial Review, the Statement of the Board of Management's Responsibilities and the Statement of Corporate Governance and Internal Control). We review the narrative elements of the financial statements for compliance with required SORP disclosures, for consistency with other areas of the financial statements and our knowledge of the client.

We have reviewed the narrative commentary against the requirements of the SORP which resulted in only minor disclosure adjustments being made to improve readability.

Financial Statements Opinion

Our work identified no adjustments to the primary financial statements. There were two adjustments identified within the Remuneration Report. These are listed in more detail at Appendix E. Other adjustments made were minor, and to improve readability. Management have made all suggested adjustments in the final version of the financial statements.

A Remuneration Report was a new requirement for the 2014/15 financial statements. There have been difficulties nationally in obtaining information for the relevant pension disclosures within the statement. The College has now received the relevant information. The receipt of the information was late, as it was only requested in November.

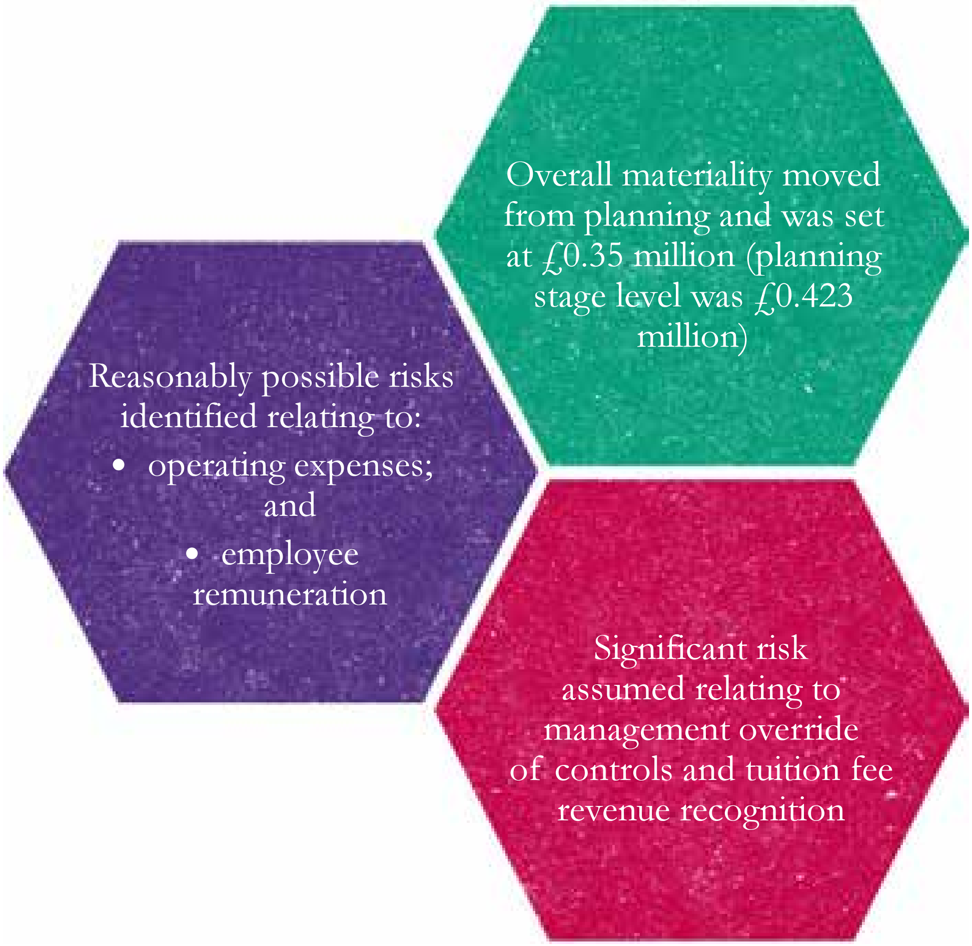
Subject to the satisfactory completion of our outstanding testing, we intend to give an unqualified opinion on the financial statements of the College.

We confirm there were no unadjusted misstatements in the audited financial statements.

Regularity

We did not identify any instances of irregular expenditure or non-compliance with laws and regulations.

A summary of our audit plan relating to financial statements



A reminder of our approach

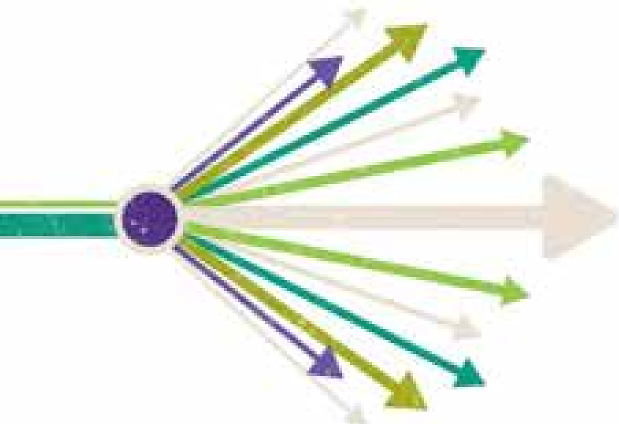
Scope of the Audit

We operate a risk based audit approach. The starting point for our audit was to consider the inherent risks to the College and how these may result in a material misstatement in the accounts. We identified two significant risks and two reasonably possible risks which have been outlined at **Table 1** and **Table 2.** Systems linked to those areas where we had identified a risk were subject to increased audit focus including consideration of the control environment, in particular whether the systems were operating effectively.

We conduct a range of audit procedures across all balances above performance materiality, including analytical review, agreement to third party confirmations and sample testing. Throughout the audit we have tailored the level of procedures to take account of the level of assessed inherent risk.

We also consider all disclosures in the financial statements and ensure compliance with the SORP, the Accounts Direction and whether disclosures are consistent with the information gathered from our audit work.

We did not identify any new areas of risk or change our approach over the course of the audit.



Application of Materiality

We outlined in our audit plan that we had set materiality at the College in line with ISA 320.

The primary focus of the College is to provide educational services through the use of public funds. We therefore set the overall materiality using gross expenditure as a benchmark. We established planning materiality at 2.0% of the 2013/14 gross expenditure (adjusted to reflect the change in period length from 8 months to 16 months), which resulted in overall materiality of £0.423 million.

In addition to overall materiality we also establish a level for performance materiality, which as defined by ISA 320 is the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

We set our performance materiality at 75% of materiality which gave a measure of £0.317 million for the College.

We reviewed the levels of materiality at the financial statements fieldwork stage to establish whether this would have a significant impact on the materiality to be applied. The levels of materiality were revised from the planning materiality outlined due to movements in the benchmark figure. The revised overall materiality level applied is £0.35 million, which results in performance materiality of £0.262 million.

In addition to the guidance on materiality in ISA320, ISA 450 requires the auditor to accumulate and report misstatements identified during the audit, other than those that are clearly trivial. For the purposes of this audit we have set trivial at £0.017 million.

Items which were considered material by nature (e.g. cash and remuneration report disclosures) were subject to a higher degree of audit scrutiny.

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Table 1: Significant Risks identified at the planning stage

	Risks identified in our audit plan	Work completed	Assurances and issues arising
1	Management override of controls Under ISA (UK&I) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	• Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions	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. We set out later in this section of the report our work and findings on key accounting estimates and judgments.
2	The revenue cycle includes fraudulent transactions Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the College, we determined the risk of fraud arising from revenue recognition is present for tuition fee revenues, but can be rebutted for grant income and other income. The reasons for the elements of income being rebutted is; • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of further education bodies, including the College, mean that all forms of fraud are seen as unacceptable. The most significant area of revenue income was SFC grant funding totalling £14.042 million, with £0.569 million other income. We have substantively tested grant funding to award letters and other income to receipt. We conducted statistical sampling of tuition fee revenues, resulting in a sample size of 24 transactions for testing.	Our work confirmed that revenue had been recognised appropriately in the financial statements.

Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty

(ISA (UK&I) 315).

Audit findings against reasonably possible risks

Reasonably possible risks are, in the auditor's judgement, other risk areas which they have identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement is lower than that for a Significant Risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Table 2: Reasonably possible risks identified at the planning stage

Transaction cycle	Description of risk	Work completed	Assurances gained and issues arising
Operating Expenses	Operating Expenses/ Creditors are understated The College incur expenditure to provide educational services within the Dumfries and Galloway area. In 2014/15 the other operating costs (this does not include employee, capital and financing costs) of providing these services was £6.002 million. From 1 April 2014 the College became a body under the central government budgeting boundary. As a central government body there is increased pressure to report a balanced budget for the financial year.	We gained assurance over the risk through: • Documentation, identification and walkthrough of the processes and controls in operation over purchase ordering, general payment and recording of expenditure. • Review of accounting estimates, judgments and understanding of the accruals accounting process. • Reconciliation of the creditors subsystem to the general ledger and financial statements. • Judgmental sampling of 15 post year end transactions for unrecorded liabilities.	Our audit work has not identified any misstatement of operating expenses from the testing carried out. The control environment was considered to be operating effectively with adequate controls in place.
Employee remuneration	Employee remuneration accruals understated Employee costs accounted for 57% of expenditure in 2014/15 at £9.878 million. There are a large number of transactions processed throughout the year. The College relies on numerous controls including monthly reconciliations and segregated duties to ensure that the employee costs are recorded correctly in the financial statements.	We gained assurance over the risk through: • Documentation, identification and walkthrough of the processes and controls in operation for payment of staff. • Judgmental sample testing of 25 staff members to the HR system, recalculation of employer costs and review of any year end accruals. • Trend analysis to analytically review payroll expenses in comparison to expectations and investigate any significant variances. • Reconciliation of the payroll subsystem to the general ledger and financial statements.	Our audit work has not identified any misstatement of employee remuneration from the testing carried out. The control environment was considered to be operating effectively with adequate controls in place.

Accounting estimates and significant judgments

Assessment

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

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

Table 3: Accounting estimates and significant judgments

Accounting area	Summary of policy	Our comments	Our assessment
Revenue recognition	• **Main annual recurrent grant income:** recognised in the period they are receivable.to match performance. • **Other Income:** recognised in proportion to the extent the completion of the contract or service concerned. • **Deferred grants:** Income for the acquisition or construction of fixed assets are deferred and recognised in line with the depreciation over the life of the asset.	• The revenue recognition policies are appropriate under the Government Financial Reporting Manual (FReM). • The disclosure in the draft accounts was found to be reasonable and in line with prior years.	●
Property, Plant and Equipment	• The fair value of all land and buildings is assessed by performing a full valuation at least every five years. An annual review of impairment is carried out in-between full valuations. • Buildings are depreciated on a straight line basis over their expected useful lives up to 60 years. Other assets have a range of useful lives up to 10 years. • Additions to assets over £10,000 are capitalised.	• The revaluation programme is deemed to be reasonable. A full revaluation was undertaken during 2014/15 for the period ended 31 July 2015 by external valuers. Experts were also used to assess the revenue and capital implications of the new restaurant capital project in the Dumfries campus. • Depreciation and capitalisation policies are considered to be reasonable and in line with the SORP. • We have no issues we wish to highlight.	●
Pension fund valuations and liabilities	• In accordance with Financial Reporting Standards the College is required to account for retirement benefits when it is committed to giving them. This involves recognition in the Balance Sheet of the College's share of the net pension liability together with a pension reserve. • Estimation of the net liability to pay pensions depends on a number of complex judgments. Actuaries are engaged to provide the College with expert advice about the assumptions to be applied.	• We have reviewed the accounting policies and confirmed they are in line with the guidance in the SORP and Financial Reporting Standard (FRS) 17. • We have reviewed the competence, capability and objectivity of Hymans Robertson who have been used as management's expert in year. • We have relied on our internal actuary team to provide assurance over the reasonableness of assumptions and judgments used by Hymans Robertson in determining the FRS17 estimations for the College. • We review the financial inputs the Actuary was provided for reasonableness. • We have no issues which we wish to highlight.	●
Holiday Pay Accrual	• As a result of the reclassification of the College to a central government body there is a requirement to include an accrual for holiday pay in line with the requirements of the Government Financial Reporting Manual (the FReM).	• The College adopted this early and included holiday pay accruals within the 2013/14 financial statements, therefore procedures were already embedded to support the 2014/15 calculation. • We reviewed the calculation methodology for the holiday pay accrual. • We considered key assumptions used by the College and reviewed for appropriateness. • We have no issues we wish to highlight.	●

Accounting estimates and significant judgments continued

Assessment

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

Table 3 continued: Accounting estimates and significant judgments

Accounting area	Summary of policy	Our comments	Our assessment
Provisions	• Recognised when there is a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.	• The College has provisions, mostly for early retirement pension costs. • .We have no issues we wish to highlight.	●
Remuneration Report – pension disclosures	• As a result of the reclassification of the College to a central government body there is a requirement to produce a Remuneration Report. • Estimation of the cash equivalent transfer values (CETV) within the Remuneration Report is provided for the Scottish Teacher's Superannuation Scheme (STSS) and Local Government Pension Scheme (LGPS) to the College.	• We have reviewed the competence, capability and objectivity of Scottish Public Pensions Agency who provide the STSS CETV disclosures. In addition, Dumfries and Galloway Council provide the CETV LGPS disclosures, and both have been used as management's experts in year. • We review the financial and non financial input provided for the calculation of the CETV disclosures. • This is a new disclosure requirement for the 2014/15 financial statements, and we have requested that the College include in their letter of representation specific reference on the assurances over the estimate.	●
Other Accounting Policies	• We have reviewed the College's policies against the requirements of the SORP, accounting standards and the Accounts Direction.	• Disclosures were in line with expectations and considered reasonable.	●

Other areas of audit focus

Internal controls

We update our understanding of the College's operations and key financial controls systems each year and tailor our audit strategy to focus on key risk areas.

Our audit included consideration of internal control 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 our interim audit, we conducted testing on the following areas:

- tuition fee revenues
- operating expenses
- employee remuneration
- IT control environment.

We did not identify any significant deficiencies or material weaknesses arising from our testing of the systems above. Overall, the results of our interim testing confirmed that there is a sound system of internal control covering key financial systems operated by the College.

Going Concern

The College has prepared its accounts on a going concern basis. We have considered this and obtained assurance over going concern through:

- review of financial factors including levels of assets, liabilities, arrears and operating cash flows
- review of financial forecasts and the assumptions which underpin the forecasted figures.

Related Parties

The College is required to disclose material transactions with bodies that have the potential to control or influence the College or to be controlled or influenced by the College.

In year the College disclosed its related party disclosures. The SFC recurrent grant income is already disclosed separately within the financial statements.

We have used computer aided audit techniques to search for material undisclosed related party transactions. From this testing we did not find any related party balances which had not been disclosed in the figures above or elsewhere in other disclosures in the financial statements.

Remuneration Report

The FReM requires that all bodies under central government prepare a Remuneration Report. Each year the Cabinet Office release guidance outlining the disclosures which are required in remuneration reports such as:

- salary information for the senior management team
- pension information for the senior management team
- the median remuneration of all staff and the ratio between this and the mid-point of the highest paid director.

This is the first year the College has been required to prepare such information. The Remuneration Report was provided by the College during the audit and was not available at the start of the audit, mainly due to delayed receipt of information for pension disclosures and interpretation of who was deemed as 'senior management'.

There has been difficulty nationally in producing the information for the pension disclosures. the information was requested and received in November 2015, so the audit of the Remuneration Report is now complete

We identified 2 adjustments in the Remuneration Report. Further information is provided at Appendix E. The adjustments identified have been amended in the final set of financial statements. The College is aware of the improvements required to the timeliness of the process in future years, as the Remuneration Report should be available at the start of the audit.

3. Governance

Governance

Statement of Corporate Governance and Internal Control

The College reports compliance with the UK Corporate Governance Code with the elements that are applicable to be applied in a public sector further education setting. Our audit work supports this assessment.

Some minor changes were made to update the Statement during the course of the audit by management to reflect the most up to date information.

We have reviewed the processes and procedures for preparing the Statement of Corporate Governance and Internal Control to ensure compliance with the Scottish Funding Council (SFC) requirements and in accordance with the 'Code of Good Governance for Scotland's Colleges'. We found the assurance arrangements to be well structured.

Review of Governance and Scrutiny arrangements

Key elements of the College's governance framework include a Regional Board, Board of Management and a range of Committees, including the Audit Committee. Key governance procedures include appropriate policies to prevent and detect fraud and corruption and policies on anti money laundering and 'whistleblowing'.

As part of our annual audit process we are required to review the governance arrangements in place at the College. The College operates a Regional Board, and a Board of Management that is supported by six key committees:

- Human Resources Committee
- Selection and Appointments Committee
- Remuneration Committee
- Audit Committee
- Finance and General Purposes Committee
- Learning and Teaching Committee

The Board of Management has delegated responsibility for scrutiny to the Audit Committee. Formal terms of reference for all Committees were reviewed during 2014/15.

Risk management

The College's Statement of Corporate Governance and Internal Control discloses its approach to risk management. The College has risk registers in place at corporate, directorate and service level. Risks are reviewed regularly with the work of the senior management team. Risks are reported to both the Board of Management and the Audit Committee.

Risk Management policies were in place in 2014/15 and were deemed to be reasonable and appropriate.

Key areas of risk that remain on the College's corporate risk register are in the following themes:

- External financial environment
- Diversify income streams
- Changes to the finding model
- Capital funding
- Student achievement and attainment
- Demand for student support.

Internal Audit

The College's internal audit function is provided by Baker Tilly, an external firm of accountants. Internal audit provide an annual opinion to the Audit Committee on the assurance framework. In 2014/15 they issued the following opinion:

"For the 1 April 2014 to the year ended 31 July 2015, based on the work we have undertaken, our opinion details the adequacy and effectiveness of your organisation's governance, risk management, control and Value for Money arrangements".

The internal audit reports throughout the year highlight an adequate level of compliance. From all of the Internal Audit work carried out only one of the recommendations made was scored as 'high'. Action has been taken by management to implement the recommendation.

In 2015/16, the internal auditors will focus on areas including:

- Procurement
- Human Resources Effectiveness
- Budgetary Control
- Strategic and Financial Planning
- Student Support Funding and Education Maintenance Allowance
- Student Activity Data.

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.

The College reviewed its fraud prevention and whistleblowing policy during 2014/15, as part of the annual process on the reporting of fraud and whistleblowing. No significant changes were made to the policy.

The College reported no incidents of fraud during the 2014/15 period.

Arrangements for maintaining Standards of Conduct and detection of corruption

In line with the Ethical Standards in Public Life etc (Scotland) Act 2000, the College has established a Code of Conduct for Board Members, which was approved by Scottish Ministers. A register of interests is available for each Board member on the College's website, and declarations of interest are made at each committee meeting.

Arm's length foundations for colleges (ALFs)

The Scottish Government budget regulations limit the College's ability to carry cash reserves and retain surpluses. In order to mitigate the impact of the reclassification the Scottish Government approved the following actions prior to 1 April 2014:

- establishment of a college sector umbrella foundation
- establishment of a separate foundation for each college, as required
- transfer of colleges cash-backed reserves and on-going surpluses to the above foundations.

The College elected to donate to the ALF 'Scottish Colleges' Foundation'.

A critical element in establishing the ALF was ensuring they could be shown to be independent of the College so transfers of reserves would be outside the Scottish Government budgeting boundary.

During 2014/15 the College donated £0.018million to the ALF and received £1.492 million in funding for the new restaurant development at the Dumfries Campus.

A key risk is that over time it becomes apparent that the ALF is not independent of the College, which results in consolidation of the ALF financial statements into the College group. We reviewed the arrangements in place to satisfy ourselves with the governance arrangements and independence of any transactions the College makes. We are satisfied that the Trust is independent from Dumfries and Galloway College. This will continue to be an annual consideration of both the College and external auditor.

4. Performance

Performance

The College's structure ensures that finance has sufficient status and we are satisfied that financial capacity is adequate

The Performance Reporting Framework is reviewed annually and key performance indicators monitored

Monitoring arrangements are in place to review the financial health of colleges

Audit Scotland's report on Scotland's Colleges' found that learning targets continue to be met, however there are numerous challenges in the sector.

The College achieved 99.75% of their 2014/15 weighted sums targets for student activity

Colleges have delivered around £30 million in efficiencies in real terms, with a target of £50 million by 2015/16

Performance

Development of the Strategic Plan

The College's 'Vision 2020' sets out the strategic themes, priorities and objectives for the College. This is underpinned by the strategic outcomes in the Scottish Funding Agreement 2015/17 which is updated annually, and sets out the College's annual priorities.

The agreement is underpinned by five outcomes which have been agreed with the Scottish Funding Council and therefore contribute to the Scottish Government's National Performance Framework and strategy for creating a smarter Scotland.

- To deliver an efficient regional structure to meet the needs of the Region
- To contribute to meeting the national guarantee for young people
- To ensure students are qualified to progress through the system in both an efficient and flexible manner
- To ensure students are qualified and prepared for work and to improve and adapt the skills of the region's workforce
- To secure, well managed and financially and environmentally sustainable colleges.

As part of this plan the College has identified key tasks for 2014/15 with a focus on partnership working, employer engagement and on-going curriculum review and development. There are clear timelines outlined in the plan with identified targets for delivery and performance indicators.

We will continue to monitor the College's progress against the outcome agreement targets as part of our audit process.

Performance reporting

The College use a range of targets and key performance indicators (KPIs) to monitor performance. Performance is monitored by the Board of Management and senior management team throughout the year.

The Report and Financial Statements for 2014/15 summarises performance against the College's main KPIs for the year. In accordance with SFC requirements, the College monitors and reports progress on national priorities regularly. This includes trend analysis reporting and sector average comparisons.

The KPI's selected were agreed by the College as most relevant and targets were set and reviewed on an on-going basis. The College achieved 99.75% of its targeted weighted student numbers for the 2014/15 academic year, with a delivery of 42,423 units against a target of 42,529 units.

The College monitors courses targets for early withdrawal, further withdrawal, partial success and learner success. These are split across both further and higher education courses, and across full and part-time study. The College set higher targets in all of these indicators in 2014/2015 when compared to 2013/14. The targets are reviewed regularly and they are challenging.

Scotland's Colleges 2015

The Auditor General published a report on the college sector in April 2015. This report focused on the reform in the College sector following the regionalisation process and the financial standing of the college sector.

Key messages from the report are:

- Scotland's colleges have faced significant changes over the past few years, which have had implications for funding, delivery and how colleges are run, managed and scrutinised. It is too early to fully assess how these will affect how colleges perform and the quality of learning, as many of the changes are still taking place.
- The Scottish Government's reform programme has led to college mergers, and the number of incorporated colleges reduced from 37 in 2011/12 to 20 in 2014/15. Planning for mergers was generally good and all the merged colleges were established on time. The College provided guidance, support and challenge.
- The Scottish Government and the College expect the reform programme to deliver a number of high level benefits, including reduced duplication, improved engagement with employers, better outcomes for students and financial savings of around £50 million each year from 2015/16. A large proportion of the savings has come from reductions in staff, with the biggest reduction being teaching staff costs. However, it is unclear what savings have been achieved in addition to reduced staff costs.
- Colleges continued to meet targets for learning, providing around 76 million hours of learning in 2013/14. Regular student surveys and merger evaluation feedback from the College indicate that changes to date have not adversely affected students.
- Recent changes have made it more challenging for colleges to plan and forecast their longer-term financial position. However colleges need to develop longer term financial planning to ensure they consider and plan for the future needs of their region.

Audit Scotland data return

We are required to complete a data return to inform the 2016 Scotland's Colleges report. The overarching theme is financial capacity. This covers the areas of:

- financial planning and performance,
- severance
- governance,
- transparency.

The return has been completed and will be submit to Audit Scotland at the same time as the audited financial statements.

Running Cost Expenditure

The financial period for the 2014/2015 accounts is sixteen months, so the comparators for 2013/2014 are for an eight month period.

During 2014/15, the College spent just under £17.5 million on running costs. £9.5m of this related to staff costs.

Like most public sector bodies the College has been working to match expenditure to income levels. A deficit of £0.502 million was the overall position for 2014/2015 after the donation to the ALF of £0.018 million.

£0.296m of the deficit is due to 'technical' accounting requirements regarding the use of depreciation.

The most significant element of running costs are staff costs, which account for 57% of the running costs. This is a key performance indicator that is closely monitored.

Source: Dumfries and Galloway College Report and Financial Statements 2014/15

Financial Position

The College's statement of financial position reflects a £3.5 million reduction in reserves during 2014/15 from £35.3 million to £31.8 million. The main reasons for this change are;

- £1.8 million reduction in fixed assets due to downward revaluation
- £1.3 million increase in the actuarial pension liabilities.

Table 4:Statement of Financial Position

	Year ended 31 July 2015 (£m)	Year ended 31 March 2014 (£m)
Non-current assets	37.953	40.521
Current assets	2.460	3.128
Non current liabilities	(6.760)	(5.862)
Current liabilities	(1.875)	(2.464)
Total net assets	**31.778**	**35.323**

Source: Dumfries and Galloway College Report and Financial Statements 2014/15

ONS reclassification

The Office of National Statistics (ONS) reclassification of Further Education Colleges to central government bodies came into force from 1 April 2014. This meant that in 2014/15 there was a requirement for the financial statements to comply with the Government Financial Reporting Manual (FReM).

This has resulted in a significant number of accounting implications and additional reporting requirements both in the financial statements as well as an increased cycle of reporting to SFC.

The College has managed to balance the increased cycle of reporting well, as well as successfully implementing the change of financial year end from March back to the end of the academic year end in July.

IFRS Conversion – 2015/2016

Full International Financial Reporting Standards (IFRS) conversion is applicable from 2015/ 16 with the issue of the new HE/ FE Statement of Recommended Practice (SORP) based on FRS 102.

This will also require comparative figures to be prepared for the opening balance at 1 April 2014 and 31 July 2015. The College continues to consider the implications of this decision and how this can be managed to deliver the changes.

The College has started work on IFRS conversion and has a timetable and Plan of key issues for conversion. A number of changes to the presentation of the financial statements will be required.

Key changes include;

- the use of the performance model for accounting for non government capital grants
- assessment of service concessions to on-balance sheet.

Funding methodology – 2015/2016

The basis for funding is changing in 2015/2016. WSUM targets are replaced by Credit targets by SFC. It is aimed that the Credit measure will more closely match student activity levels and timetabled learning.

Credit targets will be lower than WSUMS as the full time tariffs have been removed to allow the same pro-rata price to be paid for a full or part-time student.

The changes are expected to result in the same level of resource being allocated to the Scottish FE sector as a whole; however, there will be adjustments to individual regions and colleges as activity levels are re-balanced as part of the Outcome Agreement process.

Appendices

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Appendix A

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm that there are no other fees for other services.

Fees

	Per Audit plan £	Actual fees £
College Audit	14,250	14,250
Total audit fees	**14,250**	**14,250**

Fees for other services

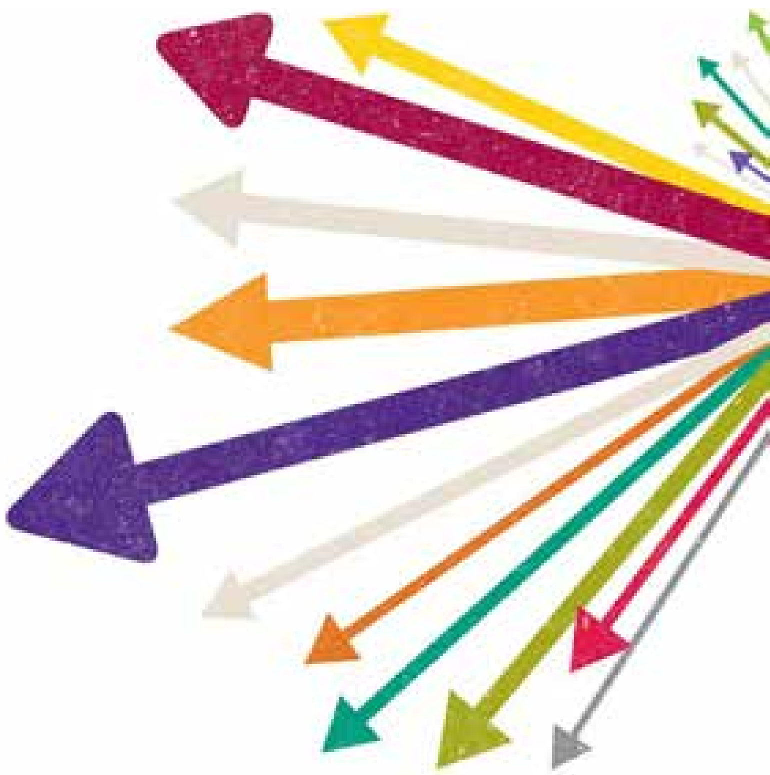
Service	Fees £
None	Nil

Fees are exclusive of VAT.

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.

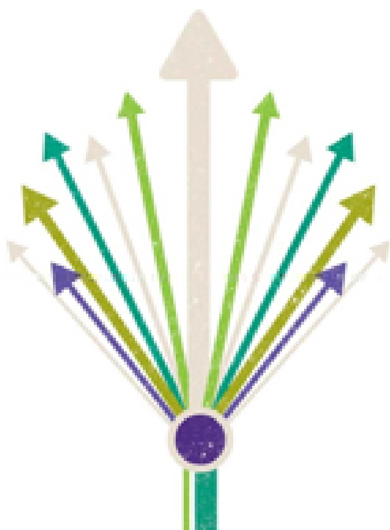


Appendix B

Other communication requirements

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

	Issue	Commentary
1	Written representations	• A letter of representation has been requested from Dumfries and Galloway College. A draft version is shown at Appendix D. • Additional representation has been requested about the assurances over the CETV pension disclosures within the Remuneration Report. • The letter of Representation includes standard paragraphs covering areas including; – Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable. – Responsibility for the design and implementation of internal control to prevent and detect error and fraud. – Related party relationships and transactions being appropriately accounted for and disclosed in accordance with the requirements of the Government Financial Reporting Manual and the Scottish Public Finance Manual. – All events subsequent to the date of the financial statements and for which the Government Financial Reporting Manual and International Financial Reporting Standards requires adjustment or disclosure having been adjusted or disclosed.
2	Disclosures	• Our audit work identified no material omissions in the financial statements. Minor adjustments were noted to disclosure notes to improve consistency and readership.
3	Matters in relation to fraud	• Management indicated there were no identified fraud issues during 2014/2015. No other issues have been identified during the course of our audit procedures.
4	Matters in relation to laws and regulations	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
5	Matters in relation to related parties	• We are not aware of any related party transactions which have not been disclosed.
6	Going Concern	• We have considered managements assessment of going concern. Our work has identified no significant issues in relation to going concern.
7	Confirmation requests from other parties	• We received external confirmations from the College's bankers to confirm the cash balances held.



Appendix C

Draft Independent Auditors 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

We have audited the financial statements of Dumfries and Galloway College for the period ended 31 July 2015 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 the Income and Expenditure Account, the Statement of Historical Cost Surpluses and Deficits, the 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, we 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 the Board of Management's Responsibilities, 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. Our 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 us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Generic 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 college'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, we read all the financial and non-financial information in the Annual Report and Financial Statements 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. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our 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 college's affairs as at 31 July 2015 and of its deficit for the period 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 (as amended).

Draft Independent Auditors Report continued

Opinion on regularity

In our 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 our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and
- the information given in the Operating and Financial Review for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

Jackie Bellard

For and on behalf of Grant Thornton UK LLP

4 Hardman Square

Spinningfields

Manchester

M3 3EB

15 December 2015

Jackie Bellard is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000

Appendix D

Draft Letter of Representation

Grant Thornton UK LLP

4 Hardman Square

Spinningfields

Manchester

M3 3EB

15 December 2015

Dear Sirs

Dumfries and Galloway College
Financial Statements for the Period Ended 31 July 2015

This representation letter is provided in connection with the audit of the financial statements of Dumfries and Galloway College for the period ended 31 July 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with Statement of Recommend Practice: Accounting for Further and Higher Education Institutions (The SORP).

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

We have fulfilled our responsibilities, as set out in the terms of the Audit Scotland appointment letter dated 23 May 2011 and the Financial Memorandum agreed between the Scottish Funding Council and the College for the preparation of the financial statements in accordance with the SORP. In particular, the financial statements give a true and fair view of Dumfries and Galloway College's state of affairs as at 31 July 2015 and of its income and expenditure for the financial period.

We are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions of the College conform to the authorities that govern them. In addition, we are responsible for ensuring that funds from the Scottish Funding Council are used only in accordance with the Financial Memorandum with the Scottish Funding Council and any other conditions that the Scottish Funding Council may prescribe from time to time.

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Significant assumptions used by us in making accounting estimates, including CETV calculations and those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the SORP.

All events subsequent to the date of the financial statements and for which the SORP requires adjustment or disclosure have been adjusted or disclosed.

The financial statements are free of material misstatements, including omissions.

Draft Letter of Representation continued

Information Provided

We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of your audit; and
- unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

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

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

We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:

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

We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

We 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.

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

We confirm that transfers made to the arm's length foundational trust were done so before the period end and to a trust independent of the College. Additionally, we confirm the trust is independent of the College and is therefore not required to be consolidated into the College's financial statements.

Yours faithfully

Signed on behalf of the Governing Body of Dumfries and Galloway College

Appendix E

Misclassifications and disclosure changes

The tables below separately provides details of disclosure changes identified during the audit which have been made in the final set of financial statements. Other minor amendments to improve consistency and readability were also made by management but are not separately listed.

	Adjustment type	Value of change £	Draft financial statements £	Audited financial statements £	Account balance	Impact on the financial statements
1	Disclosure	n/a	C Turnbull B Johnstone	C Turnbull B Johnstone J Brown H Pedley A Wright	Remuneration Report – senior management	The draft Remuneration Report did not include all senior officers. Further clarification was received during the course of the audit by the College which led to additional officers of the Board of Management included in the Remuneration Report.
2	Disclosure	n/a	30,000 2014/15 30,000 2013/14	24,000 2014/15 24,000 2013/14	Remuneration Report – median calculation for 2014/15 and 2013/14	The median calculation within the Remuneration Report was incorrectly calculated. Both the 2014/15 figure and the 2013/14 comparator were amended.

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