Dundee and Angus College

2016/17 Annual Audit Report

AUDIT SCOTLAND

Prepared for the Board of Management and the Auditor General for Scotland

December 2017

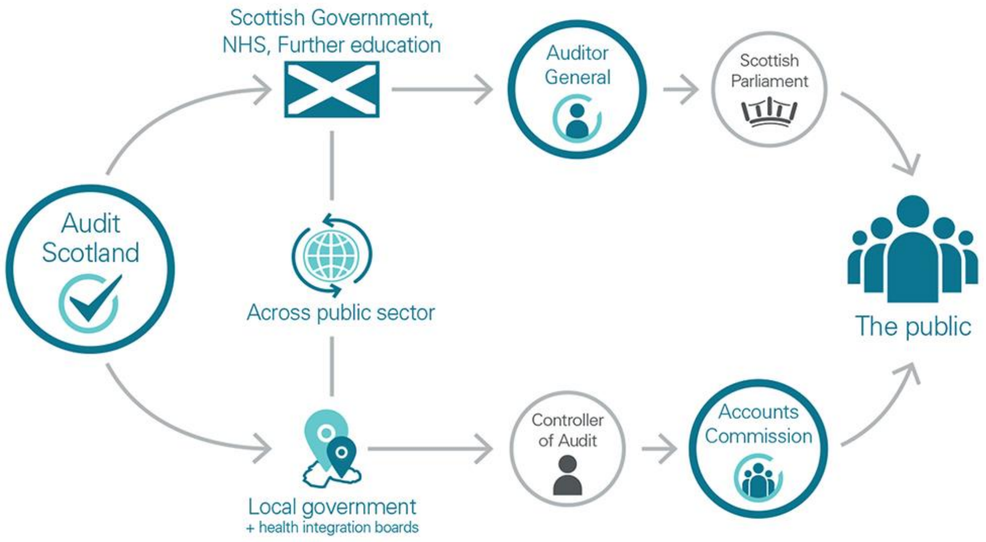
Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

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3 The college effectively managed its finances in 2016/17.

4 The college has appropriate internal controls in place within main financial systems, with scope to strengthen in some areas.

Financial sustainability

5 The college's financial position is currently sustainable.

6 The college has developed a five year financial strategy which will help the college to prepare for future financial challenges.

Governance and transparency

7 The college has effective governance arrangements in place that support scrutiny of the college's decision-making processes.

8 The college is open and transparent in the way it conducts its business, with Board of Management and committee agendas, papers and minutes publicly available.

Value for money

9 The college has demonstrated a commitment to obtaining value for money and has appropriate arrangements to help it to achieve this.

10 The college has sound arrangements for monitoring its performance.

Introduction

1. This report is a summary of our findings arising from the 2016/17 audit of Dundee and Angus College (the college).

2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Audit Committee. It comprises:

- an audit of the report and financial statements
- consideration of the wider dimensions set out in the *Code of Audit Practice 2016* as illustrated in Exhibit 1.

Exhibit 1
Audit Dimensions

Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:

- an interim audit of the college's main financial systems
- an audit of the college's 2016/17 report and financial statements including the issue of an independent auditor's report setting out our opinions.

4. The college is responsible for preparing the report and financial statements. Also, it must put arrangements in place for governance, propriety and regularity that enable the college to successfully deliver its objectives.

5. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the *Code of Audit Practice 2016*, and supplementary guidance, and are guided by the auditing profession's ethical guidance.

6. As public sector auditors we give an independent opinion on the report and financial statements. We also review and report on the arrangements within the college to manage its performance, regularity and use of resources such as money, staff and assets. In doing this, we aim to support improvement and accountability.

7. Further details of the respective responsibilities of management and the auditor can be found in the *Code of Audit Practice 2016*.

8. This report raises matters from the audit of the report and financial statements, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.

9. Our annual audit report contains an action plan at Appendix 1 (page 19). It sets out specific recommendations, responsible officers and dates for implementation.

10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

11. This report is addressed to both the Board of Management and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

12. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2016/17 report and financial statements

Main judgements

The financial statements of Dundee and Angus College and its group give a true and fair view of the state of its affairs and of its net expenditure for the year.

Our audit opinions are unqualified. These cover the financial statements, the performance report, the governance statement and aspects of the remuneration and staff report.

Unqualified audit opinions

13. The report and financial statements for the year ended 31 July 2017 were approved by the Board of Management on 12 December 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- unqualified audit opinions on the performance report, the governance statement and the remuneration and staff report.

The college's report and financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

14. Additionally, we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

Submission of report and financial statements for audit

15. We received the unaudited report and financial statements on 20 September 2017. These were incomplete, and we received the performance report and the accountability report at later dates.

16. The working papers provided with the unaudited financial statements were of a satisfactory standard although a clearer audit trail could have been provided for some account areas. These included non-current assets, trade and other receivables and creditors. Finance staff provided good support to the audit team during the audit.

Risks of material misstatement

17. Appendix 2 (page 21) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider dimension risks, how we addressed these and conclusions.

Materiality

18. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

19. Our initial assessment of materiality for the report and financial statements was carried out during the planning phase of the audit. Specifically with regard to the report and financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

20. On receipt of the report and financial statements we reviewed our original materiality calculations and revised them accordingly. These are summarised in Exhibit 2.

Exhibit 2
Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 July 2017.	£401,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 75% of overall materiality.	£301,000
Reporting threshold (i.e clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the ‘reporting threshold' amount. This has been calculated at 5% of overall materiality.	£20,000

Source: Audit Scotland

Evaluation of misstatements

21. There were no material adjustments to the unaudited financial statements arising from our audit. All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements.

Significant findings

22. International Standard on Auditing 260 requires us to communicate significant findings from the audit to those charged with governance. There were no significant findings arising from the audit.

Other findings

23. The college breached the covenants of an £8 million bank loan in 2015/16 as a result of the accounting adjustments required by FRS102. This gave the lender the right to require settlement of the loan. The lender provided a letter of waiver confirming that it waives any right this breach gives it as it understood the breach was brought about by accounting adjustments rather than performance issues. The college breached the covenants of the loan again in 2016/17 and has received another letter of waiver covering 2016/17. The college will be in breach of the conditions of the loan at the balance sheet date each year until the terms of the loan are amended to reflect the changes in the accounting rules.

Recommendation 1

The college should continue to work with the lender to ensure that the situation is resolved for future financial years.

24. During our audit testing we had difficulty agreeing movements in deferred capital grants and the revaluation reserve to the college's fixed asset register. We reviewed additional working papers which assured us that these movements have been correctly recorded in the financial statements. It is important that the college maintains an accurate record of its assets to ensure it correctly accounts for these in future years.

Recommendation 2

The college should review its fixed asset register and take corrective action to ensure asset balances are accurately recorded.

25. Our audit identified a significant number of presentational and disclosure issues which were discussed with management. These were adjusted for and reflected in the audited report and financial statements.

Part 2

Financial management

Main judgements

The college effectively managed its finances in 2016/17.

The college has appropriate internal controls in place within main financial systems, with scope to strengthen in some areas.

Financial performance in 2016/17

26. The college reported an operating deficit for the year to 31 July 2017 of £2.5 million (£2.4 million in 2015/16). This includes the impact of non-cash items such as depreciation and pension adjustments. The college made a surplus of £0.4 million with these items excluded.

27. The level of accumulated reserves held by the college decreased from £4.1 million to £2.7 million in 2016/17.

28. The college is required to comply with government accounting and budgeting rules. The college is given a revenue resource budget (RDEL) and a capital resource budget (CDEL) and must account for these in line with government's March ending financial year. The college recorded an underspend of £0.5 million against its RDEL budget of £33.7 million. The college fully utilised its CDEL budget of £0.6 million.

29. We are satisfied that the college effectively managed its finances in 2016/17 as illustrated by its performance against RDEL and its positive reserves position.

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

Budgetary control

30. We reviewed the college's budgetary processes and budget monitoring arrangements. From our review of budget reports, committee papers and attendance at audit committees we confirmed that the college's Board of Management and senior managers receive regular, timely and up to date budget monitoring reports on the college's financial position. These reports include variances against budget for the period and year to date with explanatory notes summarising actions taken to address adverse variances.

31. We concluded that the college has good budgetary monitoring and control arrangements that allow both Board members and officers to carry out effective scrutiny of the college's finances.

Going concern

32. The Board of Management considers that the college has adequate resources to continue its business activities for the foreseeable future. Funding agreements are in place for the new financial year and the college has developed a five year financial strategy to ensure achievement of a break-even position. We conclude that the going concern assumption is appropriate.

Internal controls

33. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that the college has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

34. Our findings were included in an interim audit report presented to the Audit Committee in September 2017. We identified some areas where improvements could be made to financial controls. No significant control weaknesses were identified which could affect the college's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Standards of conduct for prevention and detection of fraud and error

35. We reviewed the arrangements established by the college for the prevention and detection of fraud, error and irregularities, bribery and corruption. As part of this work we reviewed:

- the college's anti-bribery policy
- its fraud prevention policy and response plan
- the public interest disclosure policy
- the college's code of conduct for members of the Board of Management.

36. We concluded that the college had put in place appropriate arrangements for the prevention and detection of fraud and other regularities during 2016/17. We are not aware of any specific issues we require to bring to your attention.

National Fraud Initiative

37. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

38. We agreed that the college could defer taking part in the 2016/17 NFI exercise as it could not meet the timetable for providing data. The college has agreed to participate in the 2018/19 NFI exercise and will work towards developing the required reports for the data matching processes.

Part 3

Financial sustainability

Main judgements

The college's financial position is currently sustainable.

The college has developed a five year financial strategy which will help the college to prepare for future financial challenges.

Funding position

39. The Board of Management approved the college's 2017/18 budget in June 2017. The college is budgeting for a surplus of £0.3 million in 2017/18. This is based on funding of £27.6 million from the Scottish Funding Council (SFC) and £8.6 million of tuition and other income against staff costs of £27.9 million and other expenditure of £8.0 million.

40. The budget includes an increase of 2.7% in SFC credit income to meet increases in costs. The college is budgeting for increased tuition fee income which reflects greater optimism on international recruitment and overseas contracts. The staff costs budget includes the impact of academic pay harmonisation and the apprenticeship levy.

Financial sustainability looks forward to the medium and long term to consider whether the college is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial planning

41. We reviewed the college's financial planning processes and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term. We have taken into account that the college is substantially funded through SFC grants (77% of the college's 2016/17 income) and that this funding is set on a year-on-year basis by the SFC.

42. Ongoing budget pressures within the further education sector mean that it is crucial for the college to have plans in place to ensure financial sustainability in the longer term. This is particularly important given that there is likely to be further significant pressure on colleges to cut costs and generate new revenue streams.

43. Audit Scotland's report Scotland's Colleges 2016 recommends that colleges prepare long term financial plans. The report also suggests that long terms plans should be supported by medium term financial and workforce plans. These plans should allow colleges to plan for and take action to address future financial pressures such as national bargaining for teaching staff pay, estate maintenance and reductions in student support funding. The college is required to submit annual financial forecast returns to the SFC. For 2017/18 SFC has extended the forecast period from three to six years to align with Audit Scotland's recommendation that colleges develop long term financial planning.

44. The college has a five year financial strategy covering 2017/18 to 2021/22. This sets targets of a break even operating position and cash balances sufficient to support short term working capital movements. The strategy provides a clear understanding of the college's costs and savings options, and is based on realistic

and robust forecasts and assumptions. The implications of Brexit, the outcome of national bargaining and the changes to funding methodologies have also been considered. Overall, the strategy demonstrates how the college will meet demand and deliver services.

Workforce planning

45. Effective workforce planning is required to ensure the college has appropriate skills and resources in place to help it achieve its priority outcomes. Workforce planning should be a fully integrated part of the college's business arrangements.

46. The college has developed an approach to workforce planning which is aligned with activities such as curriculum review and the course approvals process. Development needs are regularly reviewed. The college's progress in developing a workforce plan has slipped due to uncertainty in funding allocations and the demand led nature of the curriculum. The college intends to work to complete its workforce plan during 2017/18.

Part 4

Governance and transparency

Main judgements

The college has effective governance arrangements in place that support scrutiny of the college's decision-making processes.

The college is open and transparent in the way it conducts its business, with Board of Management and committee agendas, papers and minutes publicly available.

Governance arrangements

47. The corporate governance framework within the college is centred around the Board of Management, supported in its role by five committees including the Audit Committee and the Finance and Property Committee.

48. The Board of Management is responsible for establishing the strategic processes within the college and arrangements for ensuring the proper conduct of the affairs of the college. In line with the requirements of the Code of Good Governance for Colleges in Scotland, the Board of Management's operations are subject to annual self-evaluation and triennial externally facilitated evaluations. The most recent external evaluation was undertaken in 2016.

49. The Board of Management delegates responsibility for scrutiny to the Audit Committee which meets quarterly. Audit Committee members demonstrate a clear understanding of their responsibilities, and of the respective roles of management, internal audit and external audit. Effective scrutiny and challenge by members over policy decisions and performance has been noted through our attendance at meetings of the Audit Committee. Members participate in development opportunities to ensure their skills adapt to changing demands.

50. We concluded that the college has effective governance, decision making and scrutiny arrangements in place which provide an appropriate framework for organisational decision making.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

The governance statement

51. The SFC's accounts direction requires colleges to prepare a governance statement within the report and financial statements. Colleges are required to comply with the Scottish Public Finance Manual (SPFM). Guidance is set out within the SPFM for the content of the governance statement. The SPFM does not prescribe a format for the governance statement, but sets out minimum requirements for organisations.

52. We concluded that the 2016/17 governance statement has been prepared in accordance with the SFC's accounts direction and complies with the minimum requirements of the SPFM.

Internal audit

53. Internal audit provides the Board of Management and Accountable Officer with independent assurance on the college's overall risk management, internal control and corporate governance processes.

54. The internal audit function is carried out by Henderson Loggie. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.

55. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we reviewed and considered the findings of the following internal audit reports:

- Payroll follow up
- Budgetary Control
- IT Network arrangements/ICT Strategy.

Risk management

56. We reviewed the risk management processes within the college. The college has a risk management policy which sets out how it identifies, assesses and manages risk. It is the Audit Committee's responsibility to review the risk management policy and the effectiveness of risk management systems.

57. The college maintains a risk register which is regularly reviewed by management and considered at each meeting of the Audit Committee. The risk register outlines the likelihood and impact of risks and the mitigating actions being taken or planned to reduce risk.

58. We concluded that risk management processes are operating effectively and are fully embedded within the college's governance arrangements.

Transparency

59. Transparency means that stakeholders, including the public have access to understandable, relevant and timely information about how boards are taking decisions about how they are using resources. We observed from our attendance at meetings of the Audit Committee that committee members scrutinise papers and ask relevant questions of officers.

60. In the course of our audit work we noted that agendas, papers and minutes of the Board of Management and committees are published on the college's website on a timely basis.

Equalities

61. The Equality Act 2010 introduced a new public sector 'general duty' that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015, and every two years thereafter, public bodies must publish a report on the progress made to achieve the equality outcomes it has set.

62. We reviewed the college's Equalities Mainstreaming Report published in April 2017, and concluded that it has met its statutory duty to:

- publish information on progress made in mainstreaming equality within the college

- report on progress made towards achieving its equality outcomes
- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish updated gender pay-gap information.

63. The college has outlined its commitment as an organisation to embed positive equality and diversity practice for all staff and students into how it does business. We have concluded that the college is proactive in ensuring that equality is mainstreamed and that it undertakes its duty to adhere to all relevant legislation.

Part 5

Value for money

Main judgements

The college has demonstrated a commitment to obtaining value for money and has appropriate arrangements to help it to achieve this.

The college has sound arrangements for monitoring its performance.

Arrangements for securing value for money

64. The financial memorandum between SFC and fundable bodies in the college sector requires the college to:

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

65. The college seeks to ensure value for money through its procurement arrangements and activities such as rapid improvement events. The college has a procurement strategy which supports its commitment to obtaining value for money. This is demonstrated by the college's procurement policies covering approximately 70% of non-pay spending.

66. Internal audit carry out an annual appraisal of management's arrangements for achieving value for money. An overall opinion is provided in internal audit's annual report to the Board of Management and Principal.

67. Our review of expenditure during the audit did not highlight any issues with the regularity of the college's expenditure or any instances of non-compliance with SFC terms and conditions.

Value for money is concerned with using resources effectively and continually improving services.

Performance management

68. The college's funding is closely linked to its performance, particularly student success. Review of the college's performance is therefore a focus of the Board of Management.

69. The college has reviewed how the Board of Management monitors performance and has developed 14 performance measures. These are considered at each board meeting. The college's committees are responsible for more detailed consideration of these performance measures.

70. We have concluded that the college has sound arrangements for monitoring its performance.

National performance audit reports

71. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published some reports which are of direct interest to the college. These are outlined in Appendix 3 to this report.

72. The college should consider opportunities to review other relevant Audit Scotland national performance audit reports and, where applicable, agree local actions.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Para no.	Issue/risk	Recommendation	Agreed management action/timing
23	**1. Bank loan covenants** The college breached the covenants of an £8 million bank loan in 2015/16 as a result of the accounting adjustments required by FRS102. This gave the lender the right to require settlement of the loan. The lender provided a letter of waiver confirming that it waives any right this breach gives it as it understood that the breach was brought about by accounting adjustments rather than performance issues. The college breached the covenants of the loan again in 2016/17 and has received another letter of waiver covering 2016/17. **Risk** The college will be in breach of the conditions of the loan at the balance sheet date each year until the terms of the loan are amended to reflect the changes in the accounting rules.	The college should continue to work with the lender to ensure that the situation is resolved for future financial years.	We will continue to press Santander on putting in place a permanent resolution to loan covenant breaches. We have been in constant contact with the bank since a meeting in September 2016, at which they proposed the removal of financial covenants as the most appropriate resolution. It is disappointing that they have as yet been unable to follow through on this. **Responsible officer:** Vice Principal Corporate Services **Agreed date:** July 2018
24	**2. Accuracy of asset register** During our audit testing we had difficulty agreeing movements in deferred capital grants and the revaluation reserve to the college's fixed asset register. We reviewed	The college should review its fixed asset register and take corrective action to ensure asset balances are accurately recorded.	The fixed asset register, in the form of an excel workbook, provides an extremely detailed audit trail of all assets since revaluation effective from 2015, and contains many checks and balances. Although it is complex, movements are summarised

Para no.	Issue/risk	Recommendation	Agreed management action/timing
	additional working papers which assured us that these movements have been correctly recorded in the financial statements. It is important that the college maintains an accurate record of its assets to ensure it correctly accounts for these in future years. **Risk** Assets are incorrectly accounted for in future financial statements.		and can be tracked to the financial statements and other supporting schedules. We do, however, agree with the recommendation to review the workbook with a view to streamlining the presentation of the data. This would be carried out whilst incorporating the adjustments arising from the next valuation as at 31 July 2018, and in advance of next year's audit. **Responsible officer:** Head of Finance **Agreed date:** August 2018

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

	Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements			
1	**Risk of management override of controls** ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.	Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.	We concluded from our audit testing that all 2016/17 journal entries, accounting estimates and judgements, and significant transactions we reviewed were appropriate. No issues were highlighted from our controls and year end testing that would indicate management override of controls.
2	**Risk of fraud over income** In accordance with ISA 240, professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. The majority of the college's income is SFC funding. The college receives a range of other income which relates primarily to tuition fees and education contracts. This can be agreed to planned expenditure in the period. The risk of fraud is therefore not considered to be significant.	SFC grant income vouched to receipt and reconciled to the funding allocation. Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk and significance.	We did not identify any significant issues from our detailed testing of funding income. We confirmed through audit testing that revenue had been recognised appropriately in the financial statements.
3	**Risk of fraud over expenditure** The Code of Audit Practice requires consideration of risk of fraud over expenditure (excluding payroll costs which are already a core part of all annual audits).	Analytical procedures on expenditure streams. Detailed testing of expenditure transactions focusing on the areas of greatest risk.	We found no significant issues from our detailed testing of other operating expenditure. We confirmed through audit testing that expenditure had been recognised appropriately in the financial statements.

Audit risk	Assurance procedure	Results and conclusions
4 Estimation and judgements There is a significant degree of subjectivity in the accounting estimates relating to the present value of defined benefit obligations under FRS102 and the present value of fixed assets. This subjectivity represents an increased risk of misstatement in the financial statements.	Completion of 'review of the work of an expert' of the professional valuers. Focused substantive testing of key areas.	Our work on the review of the actuary confirmed that we could rely on the present value of defined benefit obligations under FRS 102. Testing of the key areas of fixed assets, receivables and payables did not identify issues with the estimates or judgements being used. Our conclusion is that the estimates and judgements used are appropriate.
5 Pension Liabilities The college accounts for its membership of Tayside Pension Fund in accordance with FRS 102. The actuarial valuation methodology relies on judgement and assumptions in relation to financial, demographic and mortality factors. The valuation process also relies on the data provided by the college to the actuary being accurate, complete, timely and verifiable. The actuarial input in valuing the Fund could be affected by incomplete or inaccurate information, reliance on source data which is not fully validated or the use of unreasonable assumptions.	Assess the reliability, professional competence, capability and objectivity of the actuary as experts on whom reliance is placed. Review of the financial assumptions underlying the actuary's calculations. Review PwC report assessing actuarial processes. Testing/agreement of membership data used by the actuary to data from the pension fund. Agree actuarial reports to financial statements disclosures.	We are satisfied that the work of the actuary is carried out by competent and capable officers. We were satisfied with the assumptions and work carried out by the actuary. The financial information contained within the actuary's report has been accurately included in the financial statements.
6 Gardyne Theatre Ltd Gardyne Theatre Ltd (GTL) is a 100% owned subsidiary of the college. The theatre has a 48% ownership of an associate company, Jackie the Musical Ltd, responsible for the tour of Jackie the Musical. Jackie the Musical was a loss making tour in 2015/16. A loan repayment of £140k to the college is due from the Theatre to the college in March 2017. A review of the way in which the College and GTL are linked financially, and the management and operating structure of the theatre is	Review group questionnaire from Henderson Loggie, auditor of GTL. Request draft accounts of GTL in advance of the Dundee and Angus College financial statements audit. Carry out testing of the consolidation calculations to ensure completeness, accuracy and appropriate disclosure of the figures.	We reviewed the inclusion of GTL in the consolidated financial statements as part of our year end audit work. We reviewed the appropriateness of accounting and disclosures within the GTL financial statements. We confirmed that GTL had been correctly accounted for in the consolidated accounts. In March 2017 the college agreed to fully write off its loan to Gardyne Theatre Ltd. During 2016/17 Jackie the Musical Ltd changed its name to Johmci 1 Limited. The company is effectively dormant, so there is

Audit risk		Assurance procedure	Results and conclusions
	currently underway with a clear proposal as to the future operation of the Theatre to be brought to the meeting of the Finance and Property Committee in March 2017. The £140k loan repayment may impact negatively on the college's results if not repaid, or if a reasonable solution for repayment is not found. There is a significant risk of the theatre not being able to continue on a going concern basis, which may impact on the college.		no risk of the college incurring future losses.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice			
7	**Financial sustainability** Funding to the sector has reduced significantly over the last five years, and there is now a risk of the core funding not matching the full range of the college's cost pressures. In addition, ONS reclassification has resulted in a loss of flexibility where the college can neither overspend nor underspend against the expenditure limits set by the Scottish Government. Any underspends are clawed back and colleges can no longer use funding for depreciation to generate a surplus. A balanced financial outturn position is subject to managing emerging cost pressures and delivering savings plans. Recent budget monitoring reports highlight adverse variances against budget in staff and student related costs; and pay costs are forecast to exceed budget partly as a result of savings not being achieved as expected from a voluntary severance scheme. There is also a risk of the college not meeting its target credits which may result in a clawback of funding. The requirement to generate funds from operating activities to meet loan repayments further increases the risk to the college's financial	Review committee minutes and reports monitoring the financial position through the year, specifically any revisions to the Budget. Carry out detailed ‘cut off’ testing to confirm expenditure and income has been accounted for in the correct financial year.	We have concluded that the college’s financial position is currently sustainable.

Audit risk	Assurance procedure	Results and conclusions
sustainability.		
8 **Financial Management** The College has a strategic plan for the period 2014-20, with financial plans prepared annually for the academic year ahead. The long term financial strategy is to achieve cash break even each year, however due to uncertainties surrounding funding, the college has no formalised medium to long term financial plan. This poses a risk for the college. There is a need for longer term planning to ensure the organisation continues to achieve its objectives.	Follow up and review progress in the development of a financial strategy	The college has a five year financial strategy covering 2017/18 to 2021/22. We concluded that the strategy provides a clear understanding of the college's costs and savings options, and is based on realistic and robust forecasts and assumptions.
9 **Cyber Security** The risk of cyber attacks on an organisation's IT systems and data is becoming increasingly evident. The effect of cyber attacks may include data loss, Data Protection Act related fines, financial and/or reputational loss. The risk to the college's IT systems and data needs to be managed with effective mechanisms in place to protect them.	Review the processes in place to ensure financial systems and data are resilient and secure. Review Dundee and Angus College's risk register.	Our review of the college's risk register and the good overall level of assurance highlighted by internal audit in its report: IT Network Arrangements/ICT Strategy has allowed us to conclude that the risk of cyber attacks is effectively managed.
10 **Workforce Planning** Audit Scotland published a report on Scotland's Public Sector Workforce in November 2013 which focused on how organisations should plan to have the right skills in the right places at the right time. Development of a workforce plan, with appropriate succession planning for key posts should form an important and integrated part of the college's business arrangements. The college has developed an approach to workforce planning which is built into activities such as Curriculum Review and Course Approvals Processes. However the lack of clarity on funding beyond one year, together with the curriculum being very much	Review the development of workforce planning processes.	The college is continuing to develop its workforce planning processes. We will monitor progress during 2017/18.

Audit risk	Assurance procedure	Results and conclusions
demand led and therefore necessitating a significant number of different subject specialisms presents a problem for progressing workforce planning. There is a risk of impact on service delivery if an overarching workforce plan is not in place and regularly monitored.		
11 Governance and accountability In September 2010 the Auditor General published a report on the role of boards. The report highlighted a number of key messages on the role of boards and how they are accountable to the Scottish Government and the Scottish Parliament, board members' skills and expertise and how boards operate. In the absence of effective governance, decision making and scrutiny arrangements, together with high standards of behaviour demonstrated by staff and members there is a risk that bodies may not be acting in the public interest at all times.	Complete a questionnaire on governance and accountability with the areas to be covered based on the recommendations in the 2010 report.	From completion of the questionnaire we concluded that the college's governance, decision making and scrutiny arrangements are effective.
12 National Fraud Initiative The NFI data matching exercise, led by Audit Scotland, allows public bodies to investigate data matches, and if fraud or errors have taken place, stop payments and attempt to recover the amounts involved. The current data matching exercise collected data in October 2016 and match investigation work has started earlier this year. Without appropriate processes in place to review the matches identified by NFI there is a risk that fraudulent payments are undetected.	Monitor the college's participation and progress with the NFI process. Complete an NFI questionnaire which will reflect the college's NFI activity.	The 2016/17 NFI exercise was not completed as the timetable could not be met. The college has agreed to participate in the 2018/19 NFI exercise and will work towards developing the required reports for the data matching processes.

Source: 2016/17 Annual Audit Plan

Appendix 3

Summary of national performance reports 2016/17

2016/17 Reports

Aug	Maintaining Scotland's roads: a follow-up report	Superfast broadband for Scotland: a progress update	Scotland's colleges 2016
Sept	Social work in Scotland	Scotland's new financial powers	
Oct	Angus Council: Best Value audit report	NHS in Scotland 2016	
Nov	How councils work – Roles and working relationships in councils	Local government in Scotland: Financial overview 2015/16	
Dec	Falkirk Council: Best Value audit report	East Dunbartonshire Council: Best Value audit report	
Jan			
Feb	Scotland's NHS workforce		
Mar	Local government in Scotland: Performance and challenges 2017	i6: a review	Managing new financial powers: an update
Apr			
May	Principles for a digital future		
Jun	Best Value Assurance Report: Inverclyde Council	Common Agricultural Policy Futures programme: further update	Scotland's colleges 2017
Jul	NHS workforce planning		

FE College relevant reports

The National Fraud Initiative in Scotland – June 2016

Scotland's colleges 2016 – August 2016

Audit of higher education in Scottish universities – July 2016

Dundee and Angus College
2016/17 Annual Audit Report

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