Scott-Moncrieff
business advisers and accountants

Dumfries and Galloway College

2017/18 Annual Audit Report to the Board of Management and the Auditor General for Scotland

December 2018

Contents

Key messages

Financial statements

The annual report and accounts for the year ended 31 July 2018 were approved by the Board on 11 December 2018.

We reported within our independent auditor's report an unqualified opinion on the financial statements, the regularity of transactions, and on other prescribed matters. There are no matters which we are required to report by exception.

Our thanks go to management and staff for their assistance with our work.

Key facts

- The College continues to receive more than 80% of income through grant funding from the Scottish Funding Council. £10.146million was received in 2017/18.
- The College spent £13.422million on the delivery of services in 2017/18. Payroll costs make up 67% of total expenditure and are a key area of cost pressure for the College.
- The College reported an accounting deficit of £1.068million against a budgeted breakeven position for the year ended 31 July 2018. It hasmoved from an underlying surplus of £0.098million in 2016/17 to an underlying deficit of £0.074million. This reflects the increasingly challenging financial environment.
- The College's land and buildings were revalued in July 2018 and resulted in a surplus on revaluation of £2.2million.
- The College has approved a balanced budget for 2018/19.

Wider scope

As outlined in our External Audit Plan, our annual audit work in respect of our wider scope audit responsibilities was restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the Annual Governance Statement; and
- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

Our conclusions and key observations are set out below:

Governance statement

- We reviewed the Annual Governance Statement identified several improvements to help optimise compliance with the requirements of the Government Financial Reporting Manual and the SFC Accounts Direction. Management has incorporated these into the revised annual report.
- The College has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant issues which would require to be disclosed in the governance statement.

Financial sustainability

- The College has arrangements in place for long-term financial planning in line with SFC guidance for compiling Financial Forecast Returns.
- From 2020/21, the College faces a significant recurring deficit position with no clear plans on how to bridge the funding gap.

Conclusion

This report concludes our audit for 2017/18. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Scott-Moncrieff
November 2018

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Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the College for 2017/18.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.

We have designated the College's Board of Management as "those charged with governance".

Introduction

1. This report summarises the findings from our 2017/18 audit of Dumfries and Galloway College ("the College").

2. We outlined the scope of our audit in the external audit plan which we presented to the Audit Committee on 18 May 2018. The main elements of our work in 2017/18 have been:

   - an interim audit of the College's key financial systems and aspects of its corporate governance arrangements;
   - an audit of the draft financial statements, including a review of the annual governance statement,
   - a review of the arrangements as they relate to financial sustainability; and
   - completion of a minimum dataset of information that is submitted to Audit Scotland.

3. The College is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The weaknesses and risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

4. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. We give each recommendation a grading to help the College assess their significance and prioritise the actions required.

5. We discussed and agreed the content of this report with the Vice Principal Learning and Skills and the Head of Finance. We would like to thank all management and staff for their co-operation and assistance during our audit.

Confirmation of Independence

6. We can confirm that we have complied with the Financial Reporting Council's Ethical Standard. In our professional judgement, the audit process has been independent and our objectivity has not been compromised. In particular, there have been no relationships between Scott-Moncrieff and the College that may reasonably be thought to bear on our objectivity and independence.

7. The audit fee reported in our external audit plan was £16,070. No adjustment to the fee has been required during the course of our audit.

8. At the request of the College, Scott-Moncrieff provided VAT services during the year totalling £4,000. This work did not involve management decision making and was undertaken by the Scott-Moncrieff VAT team, entirely separately from the Public Sector External Audit team.

9. In line with Audit Scotland planning guidance, approval was obtained from the Scott-Moncrieff ethics partner and Audit Scotland before commencing non-audit work.

Adding value through the audit

10. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the College through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the College promote improved standards of governance, better management and decision-making and more effective use of resources.

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

12. We welcome any comments you may have on the quality of our work and this report via: www.surveymonkey.co.uk/r/S2SPZBX.

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Annual report and financial statements

The College's annual 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.

In this section we summarise the findings from our audit of the 2017/18 annual report and financial statements.

Annual report and financial statements

We reported unqualified opinions on the annual report and financial statements for the year ended 31 July 2018 within our independent auditor's report. We did not identify any significant adjustments to the unaudited annual report and financial statements.

The College has good administrative processes in place to prepare the annual report and financial statements and the required supporting working papers. Our thanks go to management and staff at the College for their assistance with our work.

Arrangements are in place to enable the annual report and financial statements to be submitted to the Scottish Funding Council (SFC) and Auditor General for Scotland by the 31 December deadline.

Our assessment of risks of material misstatement

13. The assessed risks of material misstatement described in Exhibit 1 below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described in Exhibit 1 below.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240(UK) – *The auditor's responsibilities relating to fraud in an audit of financial statements*.

Excerpt from the 2017/18 External Audit Plan

14. We have not identified any indications of management override in the year. We have reviewed the College's accounting records and obtained evidence to ensure that transactions outside the normal course of business were valid and accounted for correctly. In 2017/18 we identified a number of instances where supporting documentation held by the College was inadequate to evidence the authorisation process. While further investigation did not provide any indication of management override of control or inappropriate activity, this increases the risk of incorrect or fraudulent journals being processed.

Action plan point 1

15. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

2. Revenue recognition

Under ISA 240 (UK) – *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the College could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

Excerpt from the 2017/18 External Audit Plan

16. As part of our planning process we considered the nature of the revenue streams at the College against the risk factors set out in ISA 240. We considered that for Scottish Funding Council (SFC) grant funding the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate revenue of this nature. However, we considered the risk of fraud in relation to revenue recognition remained present in all other income streams.

17. In response, we evaluated each material revenue stream, considered the College's revenue recognition policy and carried out testing to ensure this is appropriate and has been applied consistently. We performed detailed testing of each material income stream. We did not identify any evidence of fraud in relation to revenue recognition.

3. Risk of fraud in the recognition of expenditure

The FRC has published a revised Practice Note 10 which applies to the audit of financial statements of public sector bodies in the UK, for periods commencing after June 2016. The practice note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

In line with the practice note, our presumption is that the College could adopt accounting policies or recognise expenditure in a way that materially misstates the College's financial performance.

Excerpt from the 2017/18 External Audit Plan

18. While we did not suspect incidences of material fraud and error, we evaluated each type of expenditure transaction and documented our conclusions. We have gained reasonable assurance on the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion, we carried out testing to confirm that the College's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

Our application of materiality

19. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

20. Our initial assessment of materiality for the financial statements was £0.240 million and it remained at this level throughout our audit. Our assessment of materiality equates to

approximately 1.8% of the College's expenditure. We consider this to be a principal consideration for the users of the accounts when assessing the performance of the College.

Performance materiality

21. Performance materiality is the amount set by the auditor at less than overall materiality for the annual accounts as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the annual accounts as a whole.

22. We set a performance materiality for each area of work based on a risk assessment for the area and percentage application of overall materiality. We then perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Weighting	Performance materiality
High	45%	£108,000
Medium	55%	£132,000
Low	70%	£168,000

23. We agreed to report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatements over £12,000; and
- Misstatements below £12,000 that we believe warrant reporting on qualitative grounds.

Audit differences

24. We are pleased to report that there were no material adjustments to the draft financial statements. We identified some minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.

25. We also identified one potential adjustment, which was below our performance materiality. Management has considered the adjustment and elected to revise the accounts.

26. A further potential adjustment related to the capitalisation of building enhancements. This has been reported to the Vice Principal Corporate Service and Governance and is included as an appendix to the letter of representation. The letter covers a number of issues and we have requested that it be presented to us at the date of signing the financial statements.

27. Full details of the audit differences are outlined in Appendix 2.

An overview of the scope of our audit

28. The scope of our audit was detailed in our External Audit Plan, which was presented to the College in May 2018. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

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

30. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit management team. In performing our work, we have applied the concept of materiality, which is explained earlier in this report.

Other matters identified during our audit

31. During the course of our audit we noted the following:

Pension Liability

32. As at 31 July 2018 the net LGPS pension liability was £2.093million, a decrease of £6.157milion in comparison to the net pension liability as at 31 July 2017 (£8.250million).

33. Due to the significant movement in comparison with the prior year, the College sought further clarification from the Actuary.

34. The movement is primarily as a result of the triennial valuation of the Dumfries and Galloway Pension Fund (carried out as at 31 March 2018). The actuarial valuation for the 31 July 2018 is the first year that the results of the triennial valuation are taken into account. In the interim years between triennial valuations, actuarial valuations are based on rolled forward data rather than a full valuation.

Performance and Accountability Report

35. We were provided with the Performance and Accountability report in the second week of our audit.

36. Our opinion on other prescribed matters includes a requirement to provide an opinion on whether the performance report is consistent with the financial statements and whether it has been properly prepared in accordance with applicable legal requirements.

From our review of the Performance and Accountability Report we have identified a number of minor disclosure adjustments which would have been reflected in the updated annual accounts.

Governance statement

37. The College's Governance Statement explains that the College was compliant with the principles of the 2016 Code of Good Governance for Scotland's Colleges. This is deemed to be in accordance with the requirements outlined in the 2017/18 Accounts Direction, released by the SFC.

38. While we are satisfied the content of the Governance Statement is not inconsistent with information gathered during the course of our normal audit work, we identified a number of disclosure improvements to help improve the level of compliance with the SFC guidance.

39. The College has taken on board our comments and are working to revise the Governance Statement for the annual report and financial statements which were approved on 11 December 2018.

Remuneration report

40. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared.

41. We identified misstatements with regards to four employees' disclosed real increases in pension, lump sum and CETV within the remuneration report. This has been adjusted in the revised financial statements and we have concluded that the disclosures are in line with underlying records and disclosure requirements.

Accounting and internal control systems

42. The College has adequate systems in place to record, process, summarise and report financial and other relevant data. While we have not identified any significant weaknesses or governance issues in the accounting and internal control systems, we did identify two moderate-to-low risk areas for improvement during our final audit. We outline the issues identified and our recommendations at Appendix 1.

Action plan points 2 and 3

Regularity

43. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

Cyber security

44. In May 2017, a number of public sector bodies across Scotland were impacted by the Wannacry global ransomware attack. In response to this the Scottish Government launched 'A Cyber Resilience Strategy for Scotland: Public Sector Action Plan, 2017/18'.

45. The action plan outlines a number of requirements that public sector bodies should be taking forward. This includes an action for public sector bodies to achieve Cyber Essentials Plus certification by the end of October 2018.

46. The College has presented regular updates to the Board and Audit Committee on the progress in achieving the Cyber Essentials Plus

Certification. In February 2018, the College completed the Cyber Essentials pre-assessment.

47. The College achieved the Cyber Essentials Plus accreditation in April 2018.

General Data Protection Regulations

48. The General Data Protection Regulations (the Regulations) came into force in the UK on 25 May 2018. The Regulations replace the Data Protection Act 1998 and as well as strengthening existing Regulations, the Act has brought in new legislative duties for the Partnership. The Regulations bring significant potential penalties for non-compliance.

49. College staff have attended GDPR awareness training during 2017/18 and the role of data protection officer is being fulfilled by through the APUC DPO Shared Service. This means that the College will share a Data Protection Officer with other colleges and the DPO will be onsite one day a week.

50. The College has published a number of revised privacy policies their website.

51. Compliance with the Regulations is an ongoing process, which we will monitor as part of our annual audit procedures. We have not identified any significant issues at this stage.

Qualitative aspects of accounting practices and financial reporting

52. We have considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our findings are summarised in the following table:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed and noted that there was no accounting estimates and key judgements accounting policy. The accounts have been updated to reflect appropriate accounting policies.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. Estimates have been made in relation to the valuation and depreciation of property, plant and equipment and pension provisions. Where available, the College has utilised the work of independent experts or industry practice to support the estimate applied. Pension estimates have been informed by advice from qualified, independent experts. We evaluated the competence, objectivity and capability of managements' experts in line with the requirements of ISA (UK) 500. We also evaluated the reasonableness of the estimates applied by the actuary and sought further clarification on the methods to derive estimated investment returns.
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant financial statements disclosures to bring to your attention.	There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statements disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or

Qualitative aspect considered	Audit conclusion
	disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

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Financial sustainability

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

Financial sustainability

The College reported an underlying deficit for the first time in 2017/18. The underlying deficit removes the impact of non-cash items on the overall financial position and has moved from a surplus of £0.098million in 2016/17 to a deficit of £0.074million in 2017/18. This is a reflection of cost pressures in year in the College.

The College has arrangements in place for long term financial planning in line with SFC guidance for compiling Financial Forecast Returns. However, the FFR process has identified a deficit position over the medium to long term and there has been limited action to identify savings options.

Significant audit risk

53. As outlined in our audit plan, we considered there to be a significant risk to the wider scope of our audit in relation to financial sustainability:

Exhibit 2: Key audit risk: financial sustainability

Financial sustainability

The College's 2017-18 budget was set with a £113,000 deficit although this was revised in August 2017 to a breakeven position which the College expects to achieve.

The indicative funding allocations for 2018/19 were announced in February 2018. The College is expecting an increase in their core teaching funding allocation of 11% compared to 2017/18. This includes additional funding for the costs of national bargaining and additional rural and remoteness funding. While the indicative allocations are likely to provide some short term financial stability for the College, the longer term financial sustainability remains challenging. This is evident through the Financial Forecast Return (FFR) which was submitted to the Scottish Funding Council in June 2017 which predicted a deficit in each of the years from 2018/19 with it reaching a £0.415 million deficit in 2021/22.

Excerpt from the 2017/18 External Audit Plan

54. The Scottish Funding Council issued guidance on Financial Forecast Returns required for the period to 2022/23 in June 2018. The returns require standard information from all colleges and contribute to the SFC financial health monitoring framework. Colleges are provided with sector wide assumptions although they are advised to review the appropriateness of these to ensure they reflect individual College circumstances.

55. The return shows that the College will move to an increasing deficit position from 2019/20. The College has noted that the underlying deficit position represents a significant challenge going forward. Confirmation of SFC grant funding for 2019/20 is expected in December 2018 and following this the College will engage in curriculum planning. It is recognised that depending on the outcome of the grant funding there may be challenging decisions regarding service delivery which are required.

56. Given the ongoing scrutiny and work being undertaken to analyse and respond to the financial challenges, we have not raised a formal recommendation in relation to this area. Instead, we will scrutinise this area in detail as part of ongoing audit work and report further

Exhibit 2: Key audit risk: financial sustainability

as appropriate.

57. Further analysis of the College's financial sustainability is included from paragraph 64.

Budget Monitoring

58. The College's Finance and General Purpose Committee received quarterly budget monitoring reports throughout the financial year. The reports include details of any revisions to the budget, variances against the budget and year end forecast figures. Appropriate narrative is provided to Committee members to allow for scrutiny of the financial position.

The College's financial performance in 2017/18

59. The Statement of Comprehensive Income for 2017/18 recorded a deficit before other gains and losses of £1.086 million, equating to 9% of the College's total income.

60. Exhibit 2 shows the actual income and expenditure compared to the revised budget approved by the Finance and General Purposes Committee in March 2018.

61. The expenditure budget was exceeded in relation topayroll costs The key items which attributed to the variances were the adjustments relating to the pension valuation movement (£0.646 million), the national pay award impact of pay costs and Voluntary Severance Scheme costs of which there were none in 2017/18 (£0.265 million in 2016/17).

62. The increase in expenditure was partially offset by an increase in the SFC grant award and other income from residences and catering.

63. The deficit position has been adjusted for non-cash items in line with guidance from the SFC. The College has reported a net underlying deficit position of £0.074million (2016/17 £0.098 million). This is the first year an underlying deficit position has been reported and reflects the significant pressures faced by the College in year.

Exhibit 3: Revenue performance against budget

	Budget £'000	Actual £'000	Variance £'000
Grant Income	9,538	9,484	(54)
Release of deferred capital	758	760	2
Fee income	1,691	1,448	(243)
Other Income	59	31	(28)
Residences and Catering Income*	-	355	355
FE and HE Childcare Funds*	-	257	257
Total Income	**12,046**	**12,336**	**290**
Pay costs	(8,211)	(8,535)	(324)
Depreciation	(1,203)	(1,203)	-
Other Costs including depreciation cash expenditure	(2,632)	(2,556)	76
Pension adjustments*	-	(532)	(532)
Interest and other finance costs*	-	(230)	(230)
Residences and catering*	-	(366)	(366)
Total Expenditure	**(12,046)**	**(13,422)**	**(1,376)**
Total	**(-)**	**(1,086)**	**(1,086)**

Source: *Financial statements and management accounts for the year ended 31 July 2018*
**Items are not included within College management accounts*

Financial Planning

64. The Scottish Funding Council issued guidance on Financial Forecast Returns required for the period to 2022/23 in June 2018. The returns require standard information from all colleges and contribute to the SFC financial health monitoring framework.

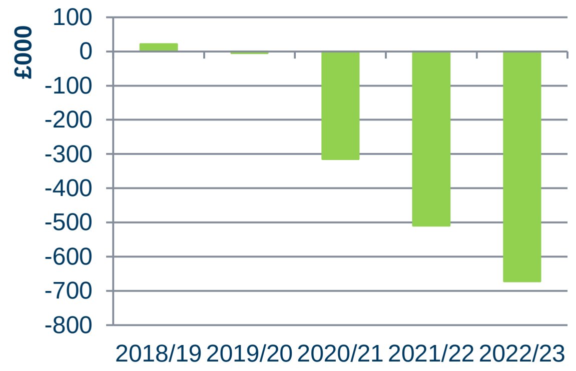
65. As part of this guidance the SFC worked with sector representatives to provide guidance on key assumptions to be applied in the Financial Forecast Return as follows:

- Financial projections for 2018/19 should be based on the funding allocation announced in May 2018. Colleges should plan for 2019/20 to include pay harmonisation with the SFC providing estimated income for this year. In the years following, Colleges are to assume that activity levels remain the same until 2022/23.

- Funding has not been assumed to cover inflationary pressures and therefore Colleges are expected to continue delivering efficiency savings of at least 3% per annum.
- Capital maintenance will be held at 2017/18 levels
- Non- SFC income and non-staff expenditure should be informed by local circumstance.
- Staff costs should take account of national bargaining harmonisation/job evaluations costs for all staff. Cost of living pay award increases for lecturing staff and for support staff should also be included. An annual increase of 2% for each remaining year should also be included.

66. Using the above assumptions the College has prepared a Financial Forecast Return which forecasts a deficit in each year from 2020/21 to 2021/22 as follows:

Exhibit 3: Projected underlying deficits



67. The Financial Forecast Returns were presented to the Board in August 2018 and the assumptions were subject to challenge and scrutiny.

68. The 2018/19 budget is balanced. However, the College recognises that to achieve this, savings will be required and work is underway to identify these. Payroll costs accounted for 68% of the College's expenditure in 2017/18 and it is primarily in this area that savings will be required.

69. The College has noted that the underlying deficit position represents a significant challenge going forward. Confirmation of SFC grant funding for 2019/20 is expected in December 2018 and following this the College will engage in curriculum planning. It is recognised that depending on the outcome of the grant funding there may be challenging decisions regarding service delivery which are required. Given the ongoing scrutiny and work being undertaken to analyse and respond to the financial challenges, we have not raised a formal recommendation in relation to this area. Instead, we will scrutinise this area in detail as part of ongoing audit work and report further as appropriate.

Future Developments

70. Dumfries and Galloway College, in partnership with Borders College, is to benefit from an investment of just over £6.6 million as part of plans approved by the South of Scotland Economic Partnership (SoSEP). The investment aims to enable the creation of a digital learning platform and infrastructure that aims to provide access to learning opportunities for individuals of all ages, irrespective of location.

71. The Colleges will develop a network of Science, Technology, Engineering and Maths (STEM) Hubs across the South of Scotland to address the immediate skills gaps in areas such as Energy and Engineering, Construction and Care.

72. This is a significant project for the College, with over £3.7million of investment at the College's Dumfries and Stranraer campuses. At the time of our audit the project is at an early stage and we will consider the ongoing implications for financial sustainability as part of our 2018/19 audit work.

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Appendices

Appendix 1: Management action plan

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

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist.

Communication of the matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Action plan grading structure

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

Grade 5	Very high risk exposure – major concerns requiring Partnership attention
Grade 4	High risk exposure – material observations requiring senior management attention
Grade 3	Moderate risk exposure – significant observations requiring management attention
Grade 2	Limited risk exposure – minor observations requiring management attention
Grade 1	Efficiency / housekeeping point

Action plan point	Issue, Risk & Recommendation	Management Comments
1. Documentation of Journal Authorisation **Rating** **Grade 3** **Paragraph ref** **18**	**Issue** A hard copy file is maintained with all authorised journals. However, during testing we identified 6 journals which were not present in the folders. While we were able to review supporting documentation for these journals, we were unable to confirm the extent to which they had been appropriately authorised. **Risk** There is a risk that incorrect or fraudulent postings could be made without detection by the College's management team. **Recommendation** While our audit review in respect of the 2017/18 financial year did not identify any indications of incorrect or fraudulent journal postings, we recommend that the College investigates the finance system capabilities and whether electronic journal authorisation of journals is possible. In whatever system is used, the College should ensure there is clear evidence of approval for all manual journals.	**Responsible officer:** **Implementation date:**

Action plan point	Issue, Risk & Recommendation	Management Comments
2. UWS Contract **Rating** **Grade 2** **Paragraph ref** **47**	**Issue** The College does not have a formal arrangement with University of the West of Scotland in respect of charges for teaching hours delivered. This lead to a significant movement in the amount of income disclosed as a consequence of over-accrual in the prior year. **Risk** There is a risk that the College cannot accurately budget income due as a result of a lack of formal contract with UWS resulting in failure to achieve a sustainable financial position. **Recommendation** The College has invoiced (as opposed to accruing) for 2017/18 teaching hours. However, going forward, the billing arrangements should be agreed in sufficient detail that the College is able to estimate the amount of income it will receive.	**Responsible officer:** **Implementation date:**

Action plan point	Issue, Risk & Recommendation	Management Comments
3. Financial regulations and authorised signatory listing **Rating** **Grade 2** **Paragraph ref** **47**	**Issue** The College's financial regulations and authorised signatory listing were due for review in May 2017 however they are still to be updated. **Risk** There is a risk that the financial regulations and authorised signatory listings are not up-to-date and staff are following incorrect and/or inefficient procedures. **Recommendation** The College should complete the review of the Financial regulations and authorised signatory listing and ensure these are appropriately authorised by the Finance and General Purposes Committee.	**Responsible officer:** **Implementation date:**

Follow up of prior year audit recommendations

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
1. Settlement agreements used for severance packages **Rating** Grade 4	**Observation** SFC guidance states that settlement agreements should not be a standard feature of voluntary severance schemes. We noted in year that the College was consistently using settlement agreements when agreeing severance packages. **Recommendation** We recommend that for future severance schemes the College considers the form of the contract made between the college and the employee, mindful of SFC guidance	**Action owner:** Vice Principal Corporate Services **Due Date:** Immediate The College will review the use of Settlement Agreements in line with the SFC Guidance.	**Action Complete** The College has not operated a severance scheme during 2017/18, Through our work and discussions, we are satisfied that the College will in future consider the use of such agreements, with particular and close consideration of SFC guidance.

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
2. Registers of Interest **Rating** **Grade 3**	**Observation** From our review of the Registers of Interests of members it was found that a number of the declarations forms had not been updated since June 2016. We have not identified any undisclosed related parties as a result of our audit work. **Recommendation** The College should ensure registers of interest are updated on at least an annual basis	**Action owner:** Secretary to the Board **Due Date:** Complete	**Action complete** All register of interests have been updated in July 2018.

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
3. Reconciliations between the payroll system and general ledger **Rating** **Grade 2**	**Observation** The College maintains separate systems for payroll and the general ledger. Payroll transactions are recorded on the general ledger by the way of an interfaced journal. Although the payroll system is reconciled to the financial ledger on a regular basis there were instances where a review of the reconciliation had not been conducted in a timely manner. There is a risk that any errors in the reconciliation between payroll and the ledger are not discovered timeously. **Recommendation** The review of the reconciliation should be undertaken in a timely manner to reduce the risk of error.	**Action owner:** Finance Manager **Due Date:** Complete	**Action complete** No issues were noted with respect of the timeliness of the payroll reconciliation.

Appendix 2: Audit differences

Adjusted differences

We identified the following adjustment during the audit. We have discussed this adjustment with management and have agreed that it should be incorporated into the financial statements:

Adjusted differences	SOCI		Balance Sheet	
	DR £	CR £	DR £	CR £
Fixed Assets			131,000	
Revaluation Reserve				131,000
Being the asset under construction transferred to fixed assets for heating but also included in the revaluation adjustment. The proposed adjustments removes the duplication of the capitalisation of heating.				

Unadjusted items

A summary of the net effect of the unadjusted items is shown below.

Unadjusted differences	SOCI		Balance Sheet	
	DR £	CR £	DR £	CR £
Fixed Assets			27,948	
Expenditure		27,948		
Being the amount charged for a new air conditioning unit on College premises which is deemed to be an enhancement				

Appendix 3: Respective responsibilities of the College and the Auditor

Management responsibilities

Within the terms and conditions of the financial memorandum between the SFC and the Board of Management of the College, the Board, through the Principal, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the College and the surplus or deficit for that year. In preparing the financial statements the Board is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the College will continue in operation.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 1992, together with the Financial Memorandum issued thereunder, and are presented in accordance with the Accounts Direction issued by the SFC.

Auditor responsibilities

Public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance not only on the financial statements and associated documents such as the governance statement, but also providing a view, where appropriate, on matters such as propriety, performance and the use of resources.

Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.

Specifically in relation to the financial statements, we are required to audit them in accordance with ISAs and to give: an opinion on the financial statements, an opinion on regularity and an opinion on other prescribed matters. We are also required to report certain matters by exception. Each of these responsibilities is described below

Opinion on financial statement

We audit the financial statements and give an opinion on whether they:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the SFC of the state of the body's affairs as at 31 July 2018 and of its surplus 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, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.

Opinion on regularity

We confirm whether, 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

We express an opinion on whether:

- 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 Performance Report 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 also required to report if, in our opinion: proper accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited 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 governance statement does not comply with Scottish Funding Council requirements.

Scott-Moncrieff
business advisers and accountants