Dundee and Angus College

2017/18 Annual Audit Report

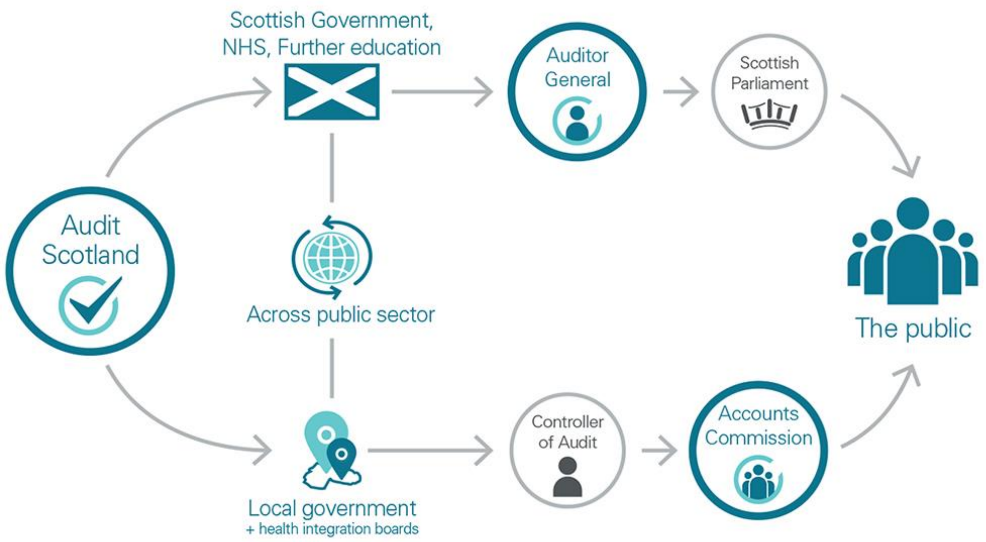
To the Board of Management and the Auditor General for Scotland

November 2018

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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4 **Dundee and Angus College's current financial position is sustainable.**

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

7 **Dundee and Angus College is open and transparent in the way it conducts its business, with Board and committee agendas, papers and minutes publicly available.**

Value for money

8 **Dundee and Angus College has proper arrangements in place to promote and secure value for money.**

9 **The College has sound arrangements for monitoring its performance.**

Introduction

1. This report summarises the findings arising from our 2017/18 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 Audit Committee on the 15 May 2018 meeting of the Audit Committee. This report comprises the findings from:

- an audit of the College's annual report and financial statements
- consideration of the four audit dimensions that frame the wider scope of public audit 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 2017/18 have been:

- an audit of the College's 2017/18 annual report and financial statements including the issue of an independent auditor's report setting out our opinions
- consideration of the four audit dimensions.

4. The College is responsible for preparing the annual report and financial statements that show a true and fair view and for establishing effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

5. Our responsibilities as independent auditors are outlined in the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2016 and supplementary guidance, and International Standards on Auditing in the UK.

6. As public sector auditors, we give independent opinions on the annual report and financial statements. We also review and provide conclusions on the effectiveness of the performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

7. This report raises matters from the audit of the annual report and financial statements and consideration of the audit dimensions. 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. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. Our annual audit report contains an agreed action plan at Appendix 1. It sets out specific recommendations, responsible officers and dates for implementation. It also includes a commentary on the actions from last year and the steps taken to implement them.

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. No non-audit fees have been charged and the 2017/18 audit fee of £23,430 as set out in our Annual Audit Plan remains unchanged. Furthermore, we are not aware of any relationships that could comprise our objectivity and independence.

Adding value through the audit

10. Our aim is to add value to the College by providing insight on financial sustainability, risk and performance by identifying areas of improvement and recommending and encouraging good practice. In so doing, 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 board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

12. We would like to thank staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2017/18 annual report and financial statements

Main judgements

The financial statements of the College for 2017/18 give a true and fair view of its financial position at the year end.

We requested that additional disclosures were made to ensure the audited part of the Performance Report and Governance Statement were properly prepared in accordance with applicable legislation and directions made by the Scottish Funding Council.

Audit opinions on the annual report and financial statements

13. The annual report and financial statements for the year ended 31 July 2018 were approved by the Board of Management on 11 December 2018. We reported, within our independent auditor's report:

- the financial statements give a true and fair view and were properly prepared
- an unqualified opinion on the regularity of expenditure and income
- an unqualified audit opinion on the auditable part of the remuneration and staff report, performance report and governance statement

14. We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

> The College's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of its resources.

Submission of annual report and financial statements for audit

15. We received the unaudited financial statements on 24 September 2018, in line with our agreed audit timetable. However, this did not include the complete remuneration and staff report which was not provided until 26 September, with some information remaining missing from this version. For the remainder of the audit engagement we expect that a complete and fully compliant Annual Report and Financial Statements will be submitted for audit in accordance with an agreed timescale. After completion of the audit, we would welcome a discussion with management on how we can improve the process in future years.

16. The Annual Report and Financial Statements should provide stakeholders with an accessible summary of the College's in-year activities and financial results. In our view, while no numerical misstatements were identified by the audit team, the quality of the Annual Accounts submitted for audit could be improved. A number of changes and adjustments were required to the performance report and governance statement to bring the document into line with current guidance.

17. The working papers provided with the unaudited financial statements were of sufficient standard although we feel there is scope to continue to develop the asset register to ensure that it provides sufficient levels of detail. Finance staff provided good support to the audit team which helped ensure the financial accounts audit process ran smoothly.

Risks of material misstatement

18. Appendix 2 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. The appendix also includes the wider dimension risks, how we addressed these and our conclusions.

Materiality

19. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

20. Our initial assessment of materiality for the annual report and financial statements was carried out during the planning phase of the audit. On receipt of the annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate. The materiality levels are summarised in Exhibit 2 below.

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 has been set at 1% of gross expenditure for the year ended 31 July 2018.	£0.427 million
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 65% of overall materiality.	£0.277 million
Reporting threshold- 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

How we evaluate misstatements

21. There were no material adjustments to the unaudited financial statements arising from our audit.

22. It is our responsibility to request that all errors above the reporting threshold are corrected although the final decision on this lies with those charged with governance considering advice from senior officers and materiality. We do not have any matters to report in this instance.

Significant findings from the audit in accordance with ISA 260

23. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in Exhibit 3. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included.

24. These findings include our views about significant qualitative aspects of the College's accounting practices including:

- Accounting policies
- Significant financial statements disclosures
- The impact on the financial statements of any uncertainties
- Misstatements in the annual report and financial statements
- Accounting estimates and judgements
- Timing of transactions and the period in which they are recorded
- The effect of any unusual transactions on the financial statements
- Disagreement over any accounting treatment or financial statements disclosure

Exhibit 3
Significant findings from the audit of financial statements

Issue	Resolution
1. Performance report The Government Financial Reporting Manual (FReM) and the Accounts Direction set out information that is to be disclosed in a performance report. The purpose of the performance analysis section of the Annual Report and Financial Statements is to ensure that a detailed summary of how performance is measured and the outcomes for the year are disclosed. The audit team identified several areas for improvement in the performance analysis section of the unaudited accounts.	Management agreed to provide some additional information in the performance report to address the issues identified. However, we feel there is scope to improve this further in 2018/19. In particular, we recommend that additional detail on the College's performance against their KPIs is included. . Recommendation 1 (refer appendix 1, action plan)
2. Governance statement The FReM requires a governance statement to be prepared in accordance with the Scottish Public Finance Manual (SPFM). The SPFM sets out essential features required in a governance statement. The governance statement submitted as part of the unaudited Annual Report and Financial Statements did not fully comply with the SPFM.	Management agreed to provide additional information to ensure the governance statement covered the essential requirements set out in the SPFM. This included providing additional information on management arrangements, assurances, both internal and independent, and the effectiveness of the governance arrangements, including control issues identified during the year. Recommendation 2 (refer appendix 1, action plan)
3. Internal audit opinion The Public Sector Internal Audit Standards (PSIAS) require the provision of an annual internal audit opinion, to inform the College's annual governance statement. At the time of writing this report, the Annual Internal Audit Report for 2017/18 is yet to be issued. This will include internal audit's opinion on the adequacy and effectiveness of the College's framework of governance, risk management and	The internal audit opinion is outstanding at the time of issuing this report.

Issue	Resolution
control arrangements for the year ending 31 July 2018. Due to the timing of Internal Audit's work this has not been provided for the preparation of the 2017/18 governance statement. The SPFM states that this is a key source of assurance.	

Source: Audit Scotland

25. Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted for and reflected in the audited report and financial statements. These adjustments were aimed at improving disclosures within the financial statements, in line with required guidance and good practice.

Dundee and Angus Foundation

26. In March 2014, the College donated cash-backed reserves of £8 million to the Dundee and Angus Foundation (the Foundation). This approach was consistent with that adopted across the sector following the Office for National Statistics (ONS) reclassification of Scottish colleges as central government bodies.

27. The Foundation is registered with the Scottish Charity Regulator with the charitable purpose of the advancement of further and higher education in Dundee and Angus.

28. Exhibit 4 below shows donations to, and awards from the Foundation relating to the College since 2014.

Exhibit 4

Dundee and Angus Foundation Transactions £m	2013/14	2014/15	2015/16	2016/17	2017/18
Donation to the Foundation	8.000	-	-	-	-
Donation from the Foundation	-	1.789	-	0.380	0.140

29. In addition to the above, as part of the College's "Good to Great" transformation project, the Foundation has committed a further £0.705 million in funding for 2018/19.

30. Approximately £5 million remains in the Dundee and Angus Foundation as at 31 July 2018.

Review of College relationship with the Dundee and Angus Foundation

31. We considered the relationship between the College and the Foundation to assess whether this indicated that the College could exercise control or significant influence over the Foundation, as defined by the statement of recommended practice (SORP) - accounting for further and higher education and FRS 102.. To comply with the SORP and FRS 102, if either control or influence was evident, the consolidation of a share of the Foundation's financial results would be required as either an associate or subsidiary.

32. The SORP defines control as *"the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities."* (SORP paragraph 4.1).

33. The SORP states that *"a direct or indirect voting right of 20% or more would normally be considered significant influence"* (SORP paragraph 8.2). For the majority of 2017/18, there was one College trustee representative out of a total of five Foundation trustees. This equates to 20% of the voting rights. A new independent member, with no connection to the College, was appointed on 20 July 2018 bringing the College representation down to below this 20% threshold.

34. In addition to this, we obtained evidence that confirmed grant applications to the Foundation were made by bodies other than the College, with one of these bids being successful in 2017/18. This further indicates that the College was not in a position to exert significant influence over the Foundation.

35. Based on the above information, it is our opinion, that there is no requirement for the College to include the Foundation in its group accounts as an associate in 2017/18. As part of our 2018/19 audit, we will review the group boundary of the College and will again seek evidence from management that demonstrates the College's lack of influence in the Foundation.

Follow up of prior year recommendations

36. We have followed up actions agreed in 2016/17 to assess progress with implementation. We have reported progress of these prior year actions in Appendix 1. They are identified by the prefix b/f (brought forward).

37. Two points were raised in 2016/17 and we note that action has been taken against both.

Part 2

Financial management

Main judgements

The College has appropriate budgetary monitoring and control arrangements that allow both members and officers to carry out effective scrutiny of the College's finances.

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

Financial performance in 2017/18

38. The College reported an operating deficit for the year to 31 July 2018 of £1.976 million (£2.536 million in 2016/17). This includes the impact of non-cash items such as depreciation and pension adjustments. The College made a surplus of £0.698 million (£0.805 million in 2016/17) with these items excluded.

39. The level of accumulated reserves held by the College increased from £2.610 million to £33.404 million in 2017/18, primarily because of significant property revaluations and pension liability gains.

40. The College reports its financial performance over the academic year to 31 July however it must also meet the resource expenditure limits set by the Scottish Government Advanced Learning and Science Directorate through the Scottish Funding Council (SFC). These require the College to break even as at 31 March against its agreed budget.

41. The College is given a revenue resource budget (RDEL) and a capital resource budget (CDEL). The College recorded an overspend of £0.400 million against its RDEL budget of £34.622 million. The College recorded an underspend of £0.007 million against its CDEL budget of £0.100 million.

42. The Scottish Government and SFC have agreed that, with effect from the financial year 2018/19, colleges will no longer be required to submit resource returns to the SFC.

43. We are satisfied that the College effectively managed its finances in 2017/18 as illustrated by its surplus (after non-cash items are removed) and its positive reserves position.

Budgetary processes

44. We also reviewed the College's budgetary processes and budget monitoring arrangements. The tight cash balances held, and projected to be held, by the College means there is a greater need to ensure budgets are effectively managed and monitored.

45. Control over income and expenditure is closely monitored by the Senior Leadership Team. Some of the control measures include:

- Monthly management accounts are produced which compare actual to budgeted income and expenditure for the period to date and an updated year end forecast.

- Controls are in place to ensure non-pay spend is only incurred where there is budget cover.

46. At each meeting of the Finance and Property Committee a budget update is provided to members. This shows the most recent performance against budget and includes a good level of detail in the narrative to explain the main variances present in the management accounts.

47. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and members receive regular, timely and up-to-date information on the College's financial position.

48. We concluded that the College has appropriate budgetary monitoring and control arrangements that allow members and officers to carry out effective scrutiny of the College's finances.

Part 3

Financial sustainability

Main judgements

The College's current financial position is sustainable.

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

Financial planning

49. 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 considered that the College is substantially funded through SFC grants (78% of the College's 2017/18 income) and that this funding is set on a year-on-year basis by the SFC.

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

50. 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.

51. Audit Scotland's report Scotland's colleges 2018 recommends that colleges prepare long term financial plans. The report also suggests that long term plans should be supported by medium term financial and workforce plans. These plans should allow colleges to plan for and act to address the future impact of national bargaining for support staff; uncertainties around long-term funding of improved employment terms; the cost of maintaining buildings and land; and the potential impact of leaving the European Union.

52. The College has a five year financial strategy covering 2018/19 to 2022/23. 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 presentation of the College's costs and savings options and is based on realistic and robust forecasts and assumptions. Overall, the strategy demonstrates how the College will meet demand and deliver services.

2018/19 budget

53. The Board of Management approved the College's 2018/19 budget in June 2018. The College is budgeting for a surplus of £0.570 million in 2018/19. This is based on funding of £29.695 million from the SFC and £8.340 million of tuition and other income against staff costs of £28.762 million and other expenditure of £8.703 million.

54. The cash balance as at 31 July 2019 was projected to be £0.209 million. The cash balances as projected were extremely tight, and therefore vulnerable to swings in the operating position and/or unexpected working capital movements.

55. The College's Financial Strategy identified that £1 million of savings had to be achieved immediately at the start of 2018/19. This has been achieved primarily through savings from the College's Voluntary Severance scheme.

56. At the September 2018 meeting of the Finance and Property Committee, it was reported that the early forecast for the year to 31 July 2019 is a surplus of £1.052

million. This represents an improvement of £0.482 million from budget. This is due to additional voluntary severance agreements secured from late applications in the 2017/18 financial year, together with favourable movements from pay award assumptions. As a result of this, the budgeted 31 July 2019 year end cash position has improved from £0.209 million to £1.153 million.

57. As noted in Part 2 of this report, the College has a strong budgetary review process in place in addition to a robust five year financial strategy.

Workforce planning

58. 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 a College's business arrangements.

59. The College published its Workforce Plan 2018 – 2021 in May 2018 which seeks to provide the College with a long-term focus on workforce planning by taking a strategic view over a three-year period. As part of their work in this area, Internal Audit reviewed this Plan. In particular, they found that the processes involved in its development were in line with the good practice published by the Chartered Institute of Personnel and Development 'Workforce planning: Right people, right time, right skills', and 'Scotland's public sector workforce' published by Audit Scotland.

60. Internal Audit found that the Regional Outcome Agreement, Financial Strategy and Workforce Plan were fully aligned, reflecting one of the key recommendations from the Scotland's colleges 2018 report (as noted in paragraph 51 above).

National Pay Bargaining

61. Whilst harmonisation of pay and key terms and conditions have been agreed with the teaching unions, the 2017/18 pay claim covering 'cost of living' for lecturing staff remains unresolved. This claim was lodged by the Educational Institute of Scotland (EIS) in December 2016 and has been the subject of extensive discussion through the National Joint Negotiation Committee (NJNC) arrangements and within the Employers' Association.

62. The existing offer to lecturing staff for cost of living awards is as follows:

- April 2017 - All lecturers who received less than £600 during the first 25% of harmonisation to receive an additional unconsolidated payment to ensure that every employee will receive a minimum of £600.
- April 2018 - All lecturers who received less than £1000 during the second 25% of harmonisation to receive an additional unconsolidated payment to ensure that every employee will receive a minimum of £1000.
- April 2019 - Immediately following final migration to the national unprompted and promoted pay scales, a consolidated award of 2.5% for all lecturing staff.

63. This offer has been rejected and there are no further meetings of the NJNC scheduled at this stage.

64. The College is unable to directly influence nationally negotiated pay increases, whether these are around harmonisation or cost of living. Pay costs are the largest element of the College's cost base (68% of the College's total expenditure in 2017/18) and this national position makes it intrinsically difficult for the College to forecast.

65. Colleges do not have any extra funding for an additional 'cost of living' pay offer. Therefore, the additional pay offer must be found by colleges making extra efficiency savings. The College has budgeted at a higher level than the offer already made, but anything further would be in addition to the £1 million that has been allocated in the 2018/19 budget.

66. In line with the rest of the public sector, there is no expectation of additional funding to cover cost of living pay increases and the excess over any general funding percentage increase will have to be met through savings.

EU withdrawal

67. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

68. The impact of Brexit has been considered by the College and is included within the risk register. As part of the College's financial strategy, it has assumed that until there is some clarity over Brexit, £1.2 million of European Structural Fund (ESF) credits will be converted to core activity at the point Britain leaves the EU. The College will continue to lobby for the ESF credits to be transferred to core to protect them from the impact of Brexit.

69. As we move closer to the "exit day" on 29 March 2019 more information will become available on the likely settlement conditions. The College should ensure it closely monitors developments and has plans in place to mitigate any emerging operational risks.

Part 4

Governance and transparency

Main judgements

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

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

Governance arrangements

70. 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.

71. 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. A detailed self-evaluation was approved by the Board in June 2018. This gives assurances on effectiveness and identifies areas for action. The most recent external evaluation was undertaken in 2016.

72. 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.

73. 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.

Transparency

74. Transparency means that stakeholders, including the public, have access to understandable, relevant and timely information. Specifically looking at how the board is taking decisions on the use of resources such as money, people and assets. We observed from our attendance at meetings of the Audit Committee that committee members scrutinise papers and ask relevant questions of officers.

75. Board and committee meetings may on occasion be open to the public, but this is not a regular feature of the arrangements in place. However, the agendas, papers and minutes of the Board of Management and committees are published on the College's website on a timely basis. We would recommend that committee meetings are held in public with sensitive or confidential items held in private session.

76. Overall, we concluded that the board conducts its business in an open and transparent manner, but we believe that this is an area where the board could improve current arrangements. With increasing public expectations for more openness in the conduct of public business, the College needs to keep this area under review and consider whether there is scope to further enhance transparency.

Risk management

77. We reviewed the risk management arrangements within the College to assess their effectiveness and appropriateness. This included consideration of the risk management policy which sets out the College's approach and arrangements in respect of the management, oversight, control, mitigation, evaluation and reporting of risks associated with college operations and activities. The policy identifies key areas of risk management and refers to related areas such as quality management systems, internal and external audit, and disaster recovery and business continuity planning.

78. We note that the current risk management policy and business continuity plan have not been reviewed since 2015. It is recommended that the College review, and update if necessary, the risk management policy and business continuity plan to ensure they remain relevant and appropriate to their needs.

Internal audit

79. The board's internal audit function is carried out by Henderson Loggie. Each year we consider whether we can rely on internal audit work to avoid duplication of effort. When we plan to place reliance on internal audit work we carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentation standards, reporting procedures and quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS).

80. We reviewed the internal audit arrangements in accordance with International Standard on Auditing 610 (Using the work of Internal Auditors), to determine the extent we could rely on the work of internal audit.

81. Overall, we concluded that we would place reliance on aspects of internal audit work in the following areas – Student Fees and Contracts / Registry – for our financial statements responsibilities. We also took cognisance of their reviews into Workforce Planning and Data Protection (General Data Protection Regulation) as part of our wider dimension work.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

82. The board has a range of activities in place designed 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 – this includes details on the College's whistleblowing arrangements
- the College's code of conduct for members of the Board of Management.

83. We concluded that the College had put in place appropriate arrangements for the prevention and detection of fraud and other regularities during 2017/18. We are not aware of any specific issues we require to bring to your attention.

Cyber security

84. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017 which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

85. The Public Sector Action Plan was received by the College in November 2017. The College carried out an initial self-assessment against this using the template. In March 2018, the College appointed an independent company to undertake a pre-assessment of the College's arrangements at that time and to advise on further action required to achieve Cyber Essentials accreditation. The pre-assessment was completed before the 31 March deadline.

86. From this assessment, an action plan was established. This allowed the College to work towards the Basic Accreditation required by the October 31 deadline.

87. Cyber attacks are becoming more prominent in the public sector and the College itself suffered a cyber incident in April 2018. This resulted in a limited number of PCs being infected with malware. Steps were taken immediately to contain the impact and remove the malware. There was no significant data or financial loss to the College as a result of this attack.

88. The ongoing risk around cyber security is included within the College risk register. Staff awareness is a key defence against these attacks. We are pleased to note that the College has drafted guidance on information security which will be made available to staff by the end of 2018. The College ICT Strategy does not make specific reference to cyber security. This strategy was last reviewed in April 2017 and is due to be reviewed and updated. This will be taken forward by the new Head of ICT early in 2019.

89. We concluded that the College is actively strengthening its cyber resilience arrangements and has completed its Cyber Essentials pre-assessment by the required date (31 March). Although the College will not achieve the October 2018 deadline for Basic Accreditation, management have confirmed this will be achieved by the end of November 2018. We will continue to monitor the College’s progress and arrangements in this area as part of our work in 2018/19.

General Data Protection Regulation

90. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998 (DPA). As a Regulation, all EU member states must implement it in the same way. GDPR sets out further requirements than the DPA and has introduced new and significantly changed data protection concepts.

91. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in the board incurring significant fines.

92. Internal audit assessed the College’s preparations for GDPR and assessed the actions taken to address the GDPR compliance risk identified by management and the Audit Committee. They noted that the College has developed a GDPR programme plan and established a GDPR Working Group to oversee the changes. A Data Protection Officer has been appointed and is responsible for coordinating GDPR preparations and overseeing compliance with legislation.

93. Internal audit provided assurance over this area. They concluded that the programme plan appears to largely cover all the main areas required by the GDPR including organisational controls in terms of development of procedures and policies, providing training to staff and ongoing monitoring of compliance.

Compliance with financial regulations

94. In March 2018, the Finance and Property Committee approved updates to the College's financial regulations. Included in this was the setting of budget thresholds for the approval of all non-pay expenditure, including capital and revenue.

95. A new 3-year ICT maintenance contract was entered into in April 2018 at a cost of £0.295 million, with the payment made in advance by the College. The value of this contract was such that, to comply with the College's financial regulations, approval was required from the Finance and Property Committee. This was not reported to the Committee, with approval only given retrospectively once the procedural breach had been identified by management.

96. The financial regulations require that any lease with a life cost in excess of £0.050 million must have the approval of the Chair of the Board of Management or Chair of Finance and Property Committee. As part of our testing of leases, we identified that two new leases entered into by the College in 2018 had not complied with the financial regulations requirements, with approval not being given by either Chair.

Recommendation 3

The College should make improvements to its procurement process to ensure the required contracts are properly scrutinised by members prior to their approval. This will safeguard its commitment of providing value for money through the procurement process.

Part 5
Value for money

Main judgements

We concluded that the College has demonstrated a commitment to obtaining value for money.

The College has sound arrangements for monitoring its performance.

Performance management

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

97. The Financial Memorandum between SFC and fundable bodies in the college sector requires the College to:

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

98. Securing the economical and effective management of the College's resources and expenditure is the responsibility of the Board of Management.

99. The College seeks to ensure value for money through its procurement arrangements. The College has a procurement strategy covering 2016-20 which supports the College's vision of "Leading Learning, Inspiring Success" through its commitment to obtaining value for money through its procurement practice.

100. Internal audit carries 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.

Overview of service performance

101. 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.

102. To ensure that there is clear visibility of data and progress at each Board meeting, a series of standard metrics is presented to members for their consideration and review. These metrics link together a number of data sources into a single high-level Board report to provide high level indications of the College's performance. This includes areas such as student satisfaction levels, credit count versus target as well as a summary of the cash backed forecast surplus/deficit against the budgeted outturn position. The College's committees are responsible for more detailed consideration of these performance measures. As noted in Exhibit 3 above, there is scope for developing the disclosures relating to the College's KPIs.

103. The College successfully delivered its student activity targets of 103,861 core credits and 5,101 European Social Fund (ESF) credits in 2017/18, with actual credits exceeding this at 109,360. This is despite the backdrop of a decline in full time student recruitments in 2017/18. As identified in Exhibit 5 on page 22 the College has a good track record of meeting and exceeding its credits targets.

104. The SFC has decreased the core activity target for 2018/19 to 107,807 credits (inclusive of 4,494 ESF credits).

Exhibit 5

Dundee and Angus College learning activity compared to the core target set by the SFC

Year	Core activity target	Activity delivered	Difference
2017/18	108,962	109,360	+398 credits
2016/17	108,333	108,501	+168 credits
2015/16	105,225	108,350	+3,125 credits

Source: SFC Infact database and Dundee and Angus College Regional Agreements

Good to Great

105. The Good to Great strategy is a two-year transformation project which started in August 2017. It was estimated that the project would take two years to complete, with an investment of £0.845 million received from the Dundee and Angus Foundation.

106. The strategy's vision is to ensure that "From 2020 onwards, Dundee & Angus College will be the outstanding model of how regional colleges in Scotland operate and how they impact on their local economy."

107. The programme is being taken forward under five key themes, with a number of projects under each theme. These are:

- Recruitment
- Retention
- Customer Experience
- Learning & Teaching
- Digital

108. Each of these themes encompasses a range of projects and related activities that include centrally-managed developments and staffinitiated and led projects supported through the bidding process.

109. A budget has been drawn up which aligns to the themes and projects. Individual budgets have been assigned to those projects which require costs to be incurred. Progress against the programme is reported at each meeting of the Finance and Property Committee for members to review and scrutinise and there is a project risk register in place.

110. There were delays initially with the transformation programme, with more time spent on planning than was originally anticipated. A project manager was appointed in November 2017 until leaving in 2018. Currently, a part time project manager seconded to the role from within the College. The project spend in the first year was £0.125 million. Several projects are underway in year two, although, it is likely that the programme of projects will run into 2019/20, with £0.720 million of project funding still to be spent. We will continue to monitor the progress of the transformation programme as part of our work in 2018/19.

National performance audit reports

111. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, we published several reports which are of direct interest to the College. These are outlined in Appendix 3 accompanying this report.

112. Arrangements are in place for the College to consider relevant national reports. For example, the Scotland's colleges 2018 report was considered by the Finance and Property Committee in September 2018.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	**Performance report** The audit team identified several areas for improvement in the performance analysis section of the unaudited accounts. **Risk** There is a risk of a lack of transparency in the annual report.	Management should review all sections of the accounts to ensure that appropriate disclosures are made. Paragraph 24	All sections of the 2018/19 accounts will be reviewed to ensure appropriate and proportionate disclosure. September 2019
2	**Governance statement** The governance statement did not comply with guidance in a number of areas. **Risk** There is a risk of inappropriate levels of disclosures in the financial statements.	Management should review all sections of the accounts to ensure that appropriate disclosures are made. Paragraph 24	See above. September 2019
3	**Compliance with financial regulations** An ICT maintenance contract and two leases were entered into without first being approved by the relevant delegated authority. **Risk** There is a risk that contracts entered into do not comply with the College's best value principles.	The College should comply with their financial regulations. Paragraph 94	The scope of the financial regulations has been reaffirmed and procedures are now in place, including a contracts register, to ensure all expenditure over £50K receives prior approval at the appropriate level within the Board of Management. Completed
Follow up of prior year recommendations			
b/f A	**Bank loan covenants** The college breached the covenants of an £8 million bank loan in 2015/16 as a result of the accounting	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 has agreed to remove the financial covenant requirements from their lending arrangements with the College.

No.	Issue/risk	Recommendation	Agreed management action/timing
	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 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.	Point actioned and closed.
b/f B	**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 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.	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 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.	As part of our financial statements work, we reviewed the asset register and corresponding working papers linked to it. No issues were identified over its accuracy. However, we feel there is scope to continue to develop the asset register to ensure that it provides sufficient levels of detail. Ongoing

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 conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and financial statements and those relating our wider responsibility under the Code of Audit Practice 2016.

	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.	Journal adjustments were tested, and no indications of management override of controls were found. Judgements and estimations applied were tested to confirm they were appropriate and reasonable. No issues were highlighted with the judgements and estimates applied. We tested accruals and prepayments and confirmed that income and expenditure was properly accounted for in the financial year. We reviewed transactions during the year – no issues highlighted of significant transactions outside the normal course of business.
2	**Risk of fraud over income** ISA 240 requires auditors to presume a risk of fraud where income streams are significant. The College recorded income of £40 million in 2016/17, of which £31 million was provided by the Scottish Funding Council (SFC) and £9 million was received from other sources. SFC funding is reliant on accurate recording of student numbers and courses provided. In addition, the level of income received from other sources is material. The extent and complexity of income means that, in accordance with ISA 240,	SFC grant income reconciled to the funding allocation. Reliance on internal audit's review of student fees and contracts. Analytical procedures on income streams. Detailed testing of revenue transactions, including cut-off testing, focusing on the areas of greatest risk.	We obtained satisfactory explanations for any significant increases or decreases in income. Satisfactory results were obtained from our testing of income transactions

	Audit Risk	Assurance Procedure	Results and Conclusions
	there is an inherent risk of fraud.		
3	**Risk of fraud over expenditure** Most public sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.	Analytical procedures on expenditure streams. Detailed testing of expenditure transactions, including cut-off testing, focusing on the areas of greatest risk.	We obtained satisfactory explanations for any significant increases or decreases in expenditure. Satisfactory results were obtained from our testing of expenditure transactions
4	**Estimation and judgements** There is a significant degree of subjectivity in the measurement and valuation of the following material account areas: • non-current assets • pension liabilities • provisions This subjectivity represents an increased risk of misstatement in the financial statements.	Completion of 'review of the work of an expert' for the actuary and valuer. Review of accounting estimates and disclosures. Additional assurances obtained from legal and HR officers in relation to provisions. Focused substantive testing of non-current assets, provisions and pension liabilities including data submitted by the College to actuaries.	We assessed the reliability of the actuary and valuer, including a review of their work. No issues were noted. Pension disclosures agreed in full to information from actuaries, or to financial records where applicable. We concluded that estimations and judgements included in the accounts are supported by appropriate audit evidence. We obtained assurances from HR in relation to provisions. These supported the information disclosed in the financial statements. We tested samples of accruals and provisions and confirmed them to appropriate back up evidence.
5	**Group accounts** During 2013/14 the College supported the creation of a charitable company limited by guarantee, The Dundee and Angus Foundation ("the Foundation") and transferred £8 million to the Foundation. To date, the financial accounts of the Foundation have not been recognised into the group financial statements of the College. As the Foundation has been operating for a number of years, external audit is now considering whether the basis for non-consolidation followed in previous years remains appropriate and that there is compliance with FRS 2 and the SORP. FRS 102 sets out the conditions under which a college is a parent undertaking, and which should prepare consolidated financial	Further discussion with the College on the issue of consolidation of the Foundation. Technical advice from Audit Scotland in-house team to be reviewed and discussed with the College. Detailed coverage during the financial statements audit of the consolidation process. Liaise with the auditors of the Foundation.	We have reviewed this issue throughout the year and have spoken to and received evidence from management to help from an opinion on this. Throughout the year, we liaised with the Audit Scotland in-house technical team who agreed with our conclusion that the Foundation should not be included in the College group accounts as an associate.

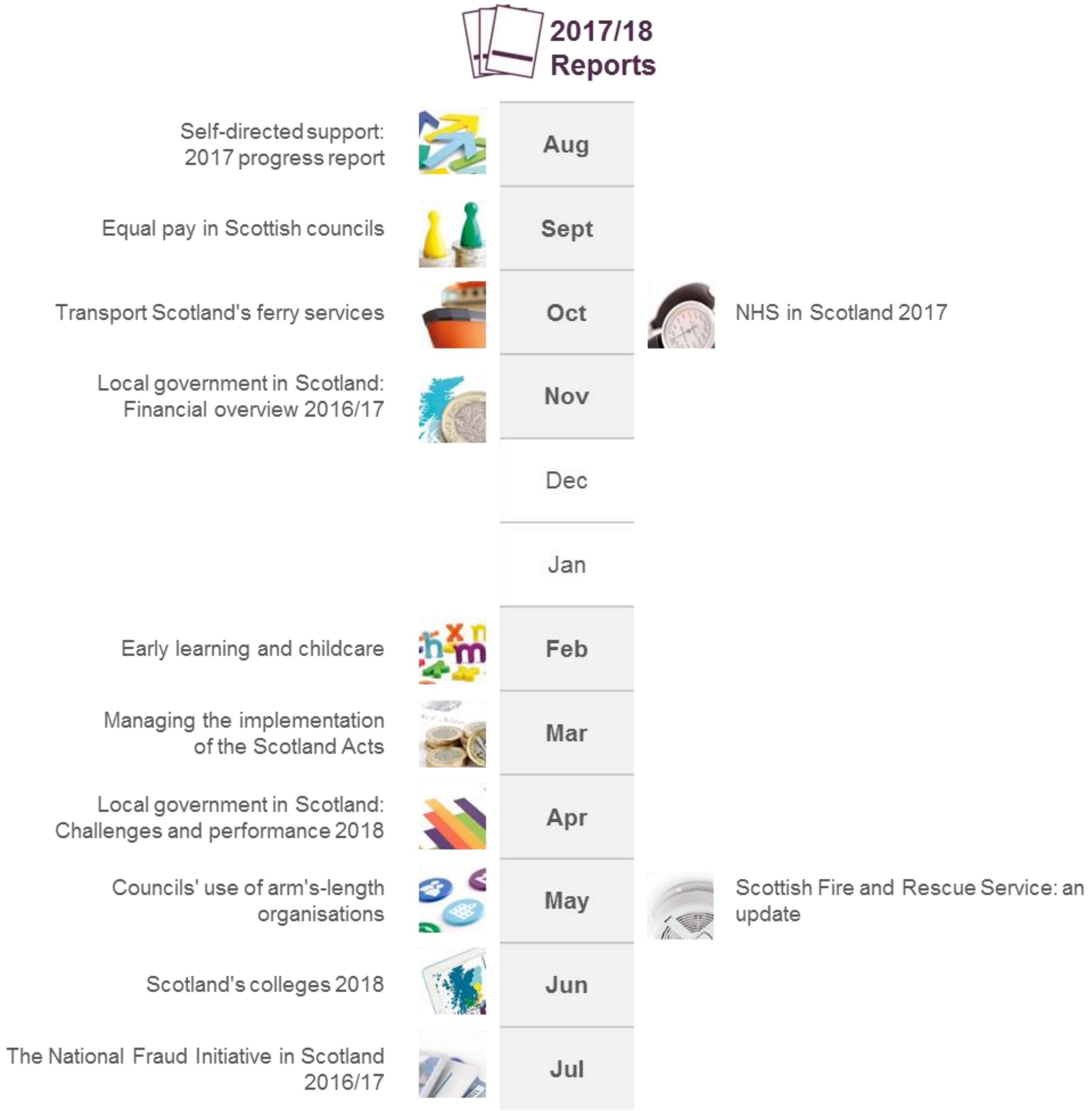
	Audit Risk	Assurance Procedure	Results and Conclusions
	statements. As well as direct control through voting rights, the conditions include the exercise of dominant influence. The statement of recommended practice (SORP) - accounting for further and higher education - states that dominant influence may arise where the objects of another entity (the Foundation) are substantially or exclusively confined to the benefit of the College. Under the Foundation's Articles of Association, the College has the ability to appoint and remove College Trustees to the Foundation's Board of Trustees. Currently, the College has a 20% representation on the Foundation's Board of Trustees. To date, the only funding awarded by the Foundation has been to the College. Taking the above into consideration, section 8 of the SORP would class this as "significant influence". There is a risk of non-compliance with the SORP and FRS 2 due to the non-consolidation of the Foundation in the College's accounts.		
6	**New procurement system** The College is expected to implement a new procurement system in May 2018 (P2P). The new system will be used to prepare the accruals for the 2017/18 financial statements. As with all new systems there is a risk that there are errors in the data transfer and the initial financial information produced. As this information feeds into the accounts, there is a financial statements risk as a result.	Review of project management methodology and of implementation plan. Focussed substantive testing on accruals.	The introduction of the new system was carried out on a department by department basis. Training was provided to users, including one to one training where necessary. Management confirmed that for the year end cut-off, the SunFinancials system was used to identify and generate the accruals for the purposes of the financial statements. The new P2P system had no significant involvement in this process. As part of our review of year end accruals, we did not identify any issues over their accounting treatment.

Audit Risk		Assurance Procedure	Results and Conclusions
7	**Asset tagging** As part of its Assets and Fleet Management review, internal audit reported that improvement was required in the area of tagging of assets and in the monitoring of assets below the Fixed Assets Register de minimis level. There is a risk of financial loss to the College and misstatement of the financial statements if appropriate procedures are not in place.	The financial statements audit work will include testing a sample of assets to verify the completeness of the asset register and the existence of the assets.	We physically verified a sample of assets held by the College and successfully traced these to the asset register. No issues were identified over the completeness of the asset register of the existence of the College's assets.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice			
8	**Financial management** A balanced financial outturn position is subject to managing emerging cost pressures and delivering savings plans. The most recent budget monitoring report highlights a projected cash backed deficit of £0.156 million against a budgeted surplus of £0.343 million for the year. One of the main contributing factors to this variance is the substantial shortfall in tuition fees compared to budget. The College is required to generate an adjusted surplus of £0.571 million to meet annual capital loan repayments. There is a risk that this is not achieved resulting in cash flow pressures for the College.	Review committee minutes and reports monitoring the financial position through the year, specifically any revisions to the Budget. On-going dialogue with officers regarding the projected year end position. Carry out detailed 'cut off' testing to confirm expenditure and income has been accounted for in the correct financial year.	Ongoing financial monitoring was consistently reported to the Finance and Property Committee. Budget movements and variances from previous periods were explained, as were forecast year end positions. The College achieved a year end cash backed surplus of £0.187 million against a budget of £0.343 million. Cut-off testing was undertaken covering both income and expenditure transactions. No issues were identified from this testing.
9	**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. The College's financial strategy has identified that it requires to make £1.25 million of savings over the next five years, with £1 million of this coming in 2018/19. Additional income generation and non-pay savings have been factored into these	Monitor progress on achievement of financial targets. Ongoing assessment of the College's five year financial strategy. Monitor student recruitment and retention activity.	Through savings made from the 2017/18 Voluntary Severance Scheme, the College made the required savings identified in their financial strategy.

	Audit Risk	Assurance Procedure	Results and Conclusions
	projections, meaning that the savings required to remain cash positive will come from reduced staffing costs. Currently, around 65% of the College's expenditure is in relation to staff costs. Of the £1 million of savings required in 2018/19, 75% of this is expected to come from the voluntary severance scheme run by the College. Failure to achieve these savings will have a significant negative impact on the cash balances of the College over the next five years. There is a risk that savings are not achieved as expected from the voluntary severance scheme. These staff savings are also made more complex by the national arrangements in place in respect of promoted posts.		
10	**Cyber security** The Scottish Government has released a 'Public Sector Action Plan' on cyber security and resilience which highlights the threats to public bodies which have to be mitigated. This applies to all public bodies in Scotland. The College has recently been the subject of a cyber-attack. There is a risk that if the College does not have sufficient resources or systems in place to comply with this action plan, they may be vulnerable to further cyber-attacks.	Assessment of the College's cyber security arrangements against the Scottish Government Cyber Resilience Action Plan.	The College is actively strengthening its cyber resilience arrangements and has completed its Cyber Essentials pre-assessment by the required date (31 March). Although the College will not make the October 2018 deadline for Basic Accreditation, management have confirmed this will be achieved by the end of 2018. We will continue to monitor the College's progress and arrangements in this area as part of our work in 2018/19

Appendix 3

Summary of national performance reports 2017/18



Further Education relevant reports

Scotland's colleges 2017 - June 2017

Scotland’s colleges 2018 – June 2018

Dundee and Angus College
2017/18 Annual Audit Report

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