Dundee and Angus College

2018/19 Annual Audit Report

To the Board of Management and the Auditor General for Scotland

13 December 2019

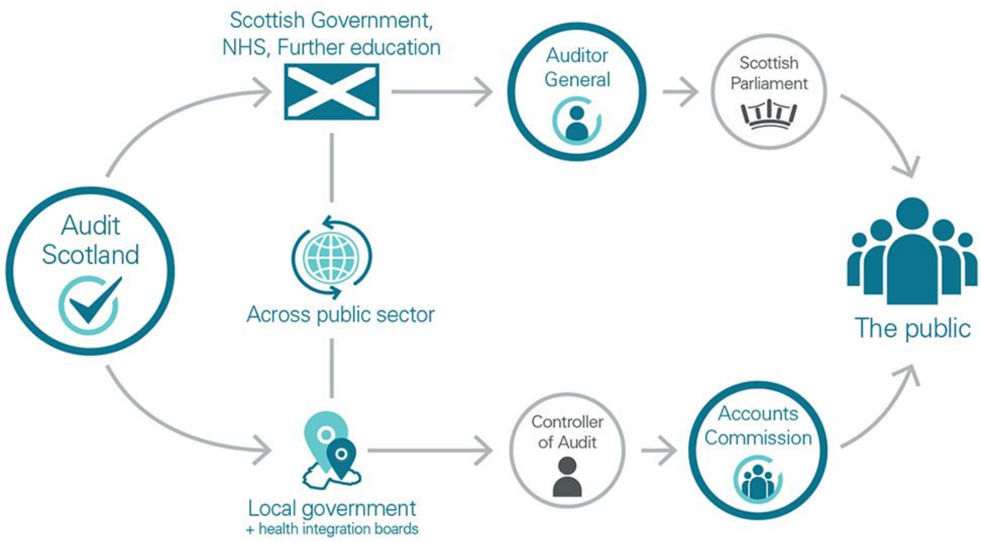
Who we are

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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Key messages

2018/19 annual report and financial statements

1 The financial statements of Dundee and Angus College give a true and fair view of the state of affairs of the College and its group as at 31 July 2019 and of the deficit for the year then ended.

2 Expenditure and income were incurred or applied in accordance with any applicable enactments and guidance.

3 The audited part of the Performance Report, Governance Statement and the Remuneration and Staff Report were all consistent with the financial statements and properly prepared in accordance with applicable legislation and directions made by the Scottish Funding Council.

Financial management

4 The College has well developed budget monitoring and control arrangements.

5 The College managed its budget effectively and reported an underlying operating surplus of £2.249 million for the year to 31 July 2019.

Financial sustainability

6 The College's five-year Financial Forecast Return projects a negative cash position by 31 July 2024. To address this the College has identified mitigating actions to maximise income generation and deliver operational efficiencies.

7 The Board has approved a five-year estates strategy to improve the physical condition of its estate. Alongside this, the College is developing a proposal to build a new Science, Technology, Engineering and Maths (STEM) centre funded by the Scottish Government through a Mutual Investment Model.

Governance and transparency

8 The College has effective governance and decision-making arrangements and the Audit and Risk Committee provide a good level of scrutiny and challenge.

9 The College conducts its business in an open and transparent manner.

Value for money

10 The College has proper arrangements in place to promote and secure value for money.

11 The College reported good attainment and retention rates for 2017/18.

12 Arrangements are in place to ensure the College meets its responsibilities under the Equality Act 2010. There is also evidence that the principles of fairness and equality are embedded within the organisation.

13 The College has addressed the recommendations in the ***Scotland's colleges 2019*** report published by Audit Scotland in June 2019.

Introduction

1. This report summarises the findings arising from our 2018/19 audit of Dundee and Angus College (the College).

2. We aim to add value to the College through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports (Appendix 3) and good practice guides, and
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Scope of our audit

3. The scope of our audit was set out in our *Annual Audit Plan* presented to the 14 May 2019 meeting of the Audit and Risk Committee. This report comprises the findings from:

- the audit of Dundee and Angus College's annual report and financial statements, including the issue of an independent auditor’s report setting out our opinions
- a review of the College’s key financial systems
- our consideration of the wider audit dimensions of public sector audit, exhibit 1, as set out in the *Code of Audit Practice 2016*.

Exhibit 1
Audit dimensions

Source: Code of Audit Practice 2016

Ethical considerations

4. We can confirm that we comply with the Financial Reporting Council's Ethical Standards. We can also confirm that we have not undertaken any non-audit related services and the 2018/19 audit fee of £23,950, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Responsibilities and reporting

5. Dundee and Angus College is responsible for preparing an annual report and financial statements in accordance with the accounts direction issued by the Scottish Funding Council (SFC) and for establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

6. 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.

7. 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 College's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability, and best value arrangements.

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

9. 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.

10. An agreed action plan is included at Appendix 1 setting out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

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

Acknowledgement

12. We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual report and financial statements

Main judgements

The financial statements of Dundee and Angus College give a true and fair view of the state of affairs of the College and its group as at 31 July 2019 and of the deficit for the year then ended.

Expenditure and income were incurred or applied in accordance with any applicable enactments and guidance.

The audited part of the Performance Report, Governance Statement and the Remuneration and Staff Report were all consistent with the financial statements and properly prepared in accordance with applicable legislation and directions made by the Scottish Funding Council.

The annual report and financial statements received unqualified audit opinions

13. The annual report and financial statements for the year ended 31 July 2019 were approved by the Board of Management on 11 December 2019. We reported, within our independent auditor's report:

The College's annual report and financial statements are the principal means by which it accounts for the stewardship of resources and its performance in the use of those resources.

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were incurred or applied in accordance with applicable enactments and guidance issued by Scottish Ministers
- the audited part of the Performance Report, Governance Statement and the Remuneration and Staff Report were all consistent with the financial statements and properly prepared in accordance with applicable legislation and directions made by the Scottish Funding Council.

14. Additionally, we have nothing to report in respect of misstatements in the information accompanying the financial statements, the adequacy of accounting records, or the information and explanations we received during the audit.

Finance staff provided good support to the audit team

15. We received the unaudited annual report and financial statements on 23 September 2019 in line with our agreed audit timetable.

16. The unaudited annual report and financial statements provided for audit were complete and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

We identified and addressed the risks of material misstatement

17. Appendix 2 provides a description of those assessed risks of material misstatement in the financial statements and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

18. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

Our audit testing reflected the calculated materiality levels

19. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the perceptions and decisions of users of the financial statements. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law). In forming our opinion on the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

20. Our initial assessment of materiality for the financial statements was undertaken during the planning phase of the audit and was based on the gross expenditure reported in the 2017/18 audited annual report and financial statements. These levels were reported in our Annual Audit Plan presented to the Audit and Risk Committee on 14 May 2019.

21. On receipt of the unaudited annual report and financial statements we recalculated our materiality levels based on the actual gross expenditure for the year ended 31 July 2019. Our final materiality levels are summarised exhibit 2.

Exhibit 2
Materiality levels

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 1.5% of gross expenditure for the year ended 31 July 2019.	£0.690 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.	£0.450 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.	£0.035 million

Source: Audit Scotland

We reported the significant findings from the audit to those charged with governance

22. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body’s accounting practices. The significant findings are summarised in exhibit 3. Our audit also identified some presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and financial statements but none were significant enough to require to be reported under ISA 260.

Exhibit 3
Significant findings from the audit of the annual report and financial statements

Issue	Resolution
1. Depreciation adjustment Following the submission of the annual report and financial statements for audit, finance staff drew our attention to an input error on the calculation of the annual deprecation charge on land and buildings that was detected during their final control checking. The correction had the effect of increasing the deprecation charge for the year by £0.277 million.	Management made the appropriate adjustment in the audited financial statements. As part of our testing of fixed assets we reviewed a sample of depreciation calculations and did not identify any errors with the annual depreciation charges. We have therefore accepted that the issue highlighted by finance staff was an isolated input error.
2. Dundee and Angus Foundation The College is required to consolidate the financial results of any organisation's that fall within its group boundary, or that it is able to exert significant control or influence over. As part of the audit we considered whether the Dundee and Angus Foundation met the criteria for consolidation within the College's annual report and financial statements.	We concluded that the College is not in a position to exert significant influence over the Dundee and Angus Foundation and therefore its financial results do not require to be consolidated within the College's 2018/19 annual report and financial statements. Further details of the basis for this judgement is provided at paragraphs 25-29 below.
3. Clawback of European Social Fund payments The College received notification from the Scottish Funding Council (SFC) on 8 November 2019 that they had identified expenditure of £0.099 million claimed under the ESF Developing Scotland's Workforce programme during the year ended 31 July 2016 that has now been deemed ineligible. This amount will be recovered from the College unless mitigating circumstances can be demonstrated. As the current position meets the criteria of a provision set out in *FRS12 – Provisions, Contingent Liabilities and Contingent Assets* (i.e. a present obligation resulting from a past event) we requested that the College recognise a provision of £0.099 million and disclose a post balance sheet event explaining the circumstances around this, in the audited financial statements.	Management agreed to disclose this as a post balance sheet event in the audited financial statements but advised that no provision has been made for this amount as the College is in discussion with the SFC and is confident that this can be substantially reduced. As this amount exceeds our reporting threshold it has been reported as an unadjusted error as detailed at paragraphs 23 and 24 below.

Source: Audit Scotland

We have no material unadjusted errors to report

23. The £0.277 million depreciation adjustment highlighted by finance staff (issue 1 in exhibit 3) and the £0.099 million clawback of ESF payments (issue 3 in exhibit 3) were the only errors that exceeded our reporting threshold of £0.035 million. It is our responsibility to request that all misstatements above the reporting threshold are corrected. Management corrected the error in the depreciation calculation but decided not to recognise a provision for the clawback of ESF payments as the College is in discussion with the SFC and is confident that this can be substantially reduced.

24. If a provision had been recognised for the clawback of ESF payments this would have increased expenditure in the Statement of Comprehensive Income by

£0.099 million and reduced net assets in the Balance Sheet by the same amount. As the value of the unadjusted error does not exceed our overall materiality level of £0.690 million it has not impacted upon our audit opinions on the annual report and financial statements set out at paragraph 13.

The financial results of the Dundee and Angus Foundation do not require to be consolidated within the College's annual report and financial statements

25. 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.

26. 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.

27. As part of the audit we considered the relationship between the College and the Foundation to assess whether this indicated that the College could exercise significant control or influence over the Foundation, as defined by the *Statement of Recommended Practice: Accounting for Further and Higher Education (SORP)* and *Financial Reporting Standard 102*. We concluded that the College was not in a position to exert significant influence over the Foundation.

28. We also assessed the group boundary of the College and obtained evidence from management that demonstrates the College does not have significant influence in the Foundation. This is supported by the College only having one out of six Foundation trustees.

29. Based on the above we concluded that the financial results of the Foundation do not require to be consolidated within the College's annual report and financial statements.

Year-on-year movements in the pension liabilities have a significant impact on the College's reported net asset position

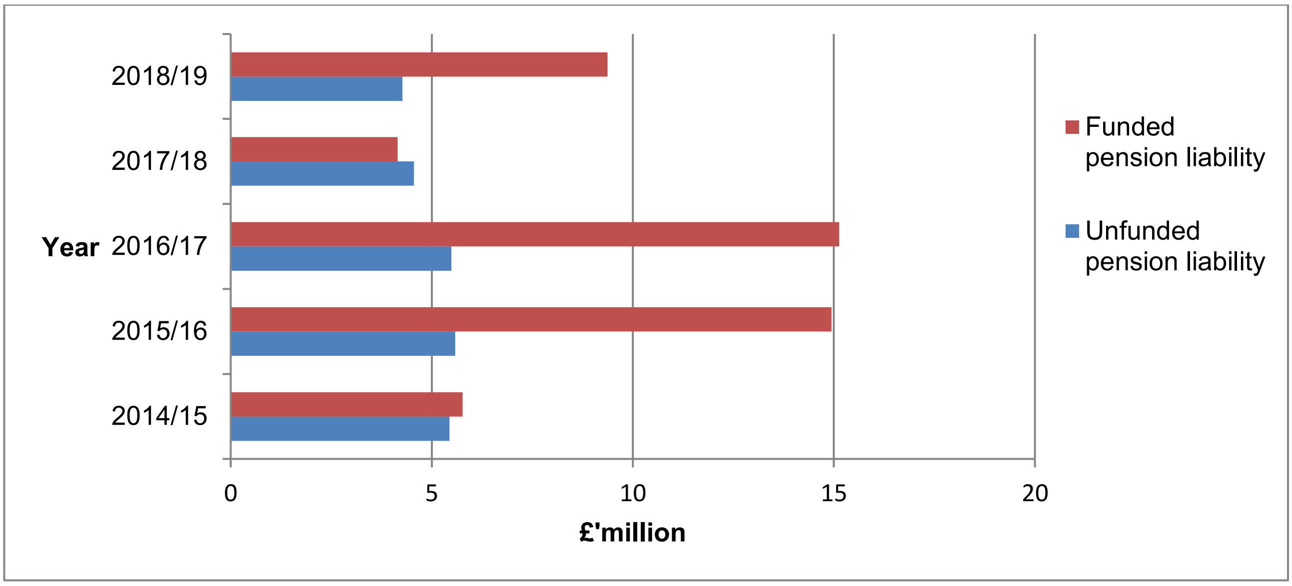
30. This section is included for information as we consider that the large year-on-year movements in the funded and unfunded pension liabilities figures requires explanation and comment. We are satisfied that the College's disclosure of its pension liabilities complies with accounting practice.

31. As required by Financial Reporting Standard 102 the College has recognised pension liabilities on the balance sheet in respect of its membership of Tayside Pension Fund which is a defined benefit Local Government Pension Scheme.

32. The valuation of Tayside Pension Fund's assets and liabilities is assessed by professional actuaries (Barnett Waddingham) each year and is dependent on a range of external variables, including projected rates of return on assets, interest rates and mortality estimates.

33. The funded pension liability in the Balance Sheet represents the difference between the College's liabilities (i.e. expected future payments to pensioners) and its share of the underlying value of the pension fund assets available to meet these costs. The unfunded pension liability in the Balance Sheet represents the additional future pension liability arising from staff who have taken early retirement.

Exhibit 4
Movement in funded and unfunded pension liability 2014/15-2018/19



Source: Dundee and Angus College Annual Report and Financial Statements 2014/15 to 2018/19

34. As at 31 July 2019, the College's funded pension liability stood at £9.370 million and the unfunded liability stood at £4.271 million. These balances compare to a funded pension liability of £4.151 million and an unfunded pension liability of £4.556 million at 31 July 2018. This is also reflected in the Consolidated Balance Sheet position. The decrease in the funded pension liability is mainly attributable to the increase in the actuarial valuation of the pension fund assets since last year.

35. Exhibit 4 sets out the movement in the College's funded and unfunded pension liabilities over the last five years. Historically there has been considerable volatility year-on-year in the valuation of pension fund assets and liabilities across the public sector. Small changes in actuarial assumptions can have a significant impact on the calculation of the closing position and this is reflected in the movements in the College's funded pension liability over the last five years.

Prior year recommendations have been addressed

36. As part of our 2017/18 audit, we recommended that for 2018/19 management should review all sections of the annual report and financial statements, in particular the performance report and governance statement, to ensure that appropriate disclosures were made. Both prior year recommendations have been addressed during 2018/19 as detailed at paragraphs 37-41 below.

Improvements have been made to the structure and content of the 2018/19 performance report

37. The Government Financial Reporting Manual (FReM) requires colleges to include a performance report in their annual report and financial statements. In addition to the opinion covered in paragraph 13 of this report, we also consider the qualitative aspects of the performance report. The purpose of a performance report is to provide information on the College, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and reasonable analysis of a body's performance and is essential in helping stakeholders understand the financial statements.

38. We concluded that the 2018/19 performance report presents a reasonable picture of the College's performance and noted that the structure and content have improved from that of previous years. We believe the report could be further developed by greater use of infographics and information being included on actual performance levels against targets, including trend analysis over time. Management were receptive to our views and advised that they intend to make further improvements to the content of the performance report in future years.

The College's governance statement reflects current good practice

39. The FReM, specifies the preparation of a governance statement as part of the annual report and financial statements. The Scottish Public Finance Manual (SPFM) sets out guidance on the content and minimum requirements of the statement but does not prescribe a format.

40. In May 2019 Audit Scotland published a *'Good practice note on improving the quality of college annual reports and accounts - governance statements'*. This shared the findings from a review of the governance statements in the 2017/18 annual report and financial statements of colleges. Colleges were encouraged to use the findings in this good practice note to assess and enhance their own 2018/19 governance statements.

41. There is evidence that the College considered the good practice note when preparing the 2018/19 governance statement and we concluded that the statement complies with the guidance issued by the Scottish Ministers and presents a satisfactory explanation and assessment of the College's governance arrangements for the year under review.

Part 2
Financial management

Main judgements

The College has well developed budget monitoring and control arrangements.

The College managed its budget effectively during the year and reported an underlying operating surplus of £2.249 million for the year to 31 July 2019.

The College has well developed budget monitoring and control arrangements

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

42. 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.

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

- The production of monthly management accounts that compare actual to budgeted income and expenditure for the period to date and an updated year end forecast.
- Expenditure controls to ensure non-pay spend is only incurred where there is budget cover.

44. The College monitors its budget position through the budget monitoring reports presented to each meeting of the Finance and Property Committee. The budget monitoring reports provide an overall picture of spend against budget and include a good level of detail in the narrative to explain the main budget variances.

45. From our review of budget monitoring reports, review of committee papers and attendance at committees, we confirmed that members and senior management receive regular, timely and up-to-date information on the College's financial position. This allows both members and senior management to carry out effective scrutiny of the College's finances.

The College managed its budget effectively during 2018/19

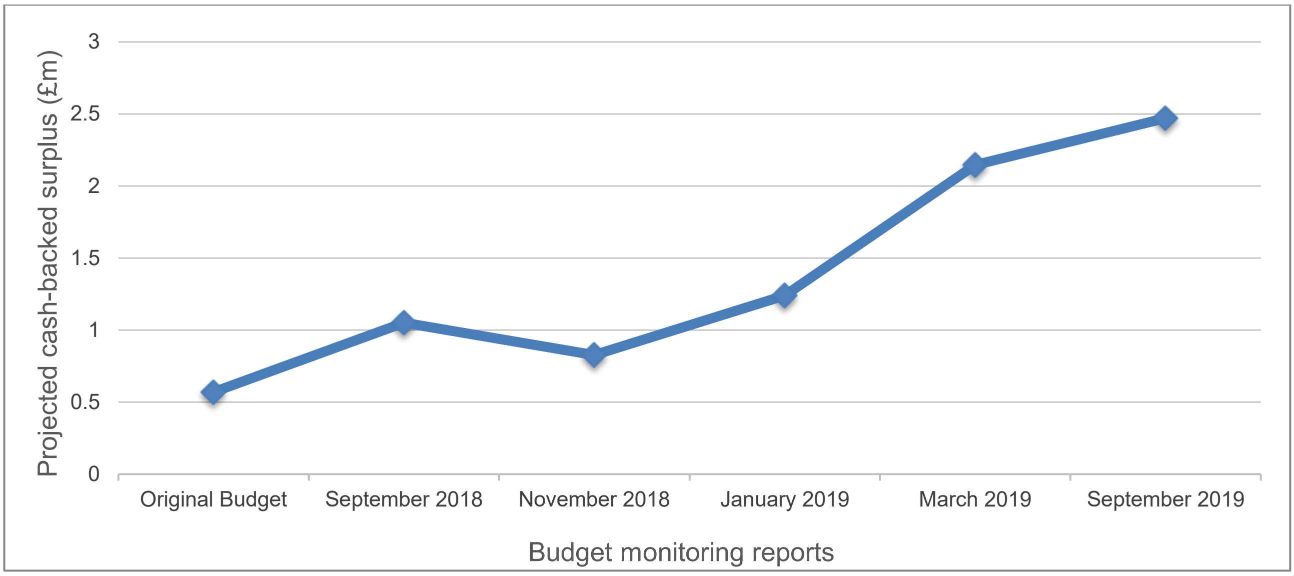
46. At its June 2018 meeting the Board of Management approved a budget for 2018/19 to achieve a cash-backed surplus of £0.570 million, based on total income of £38.035 million and total expenditure of £37.465 million (including £29.120 million for total pay costs).

47. The draft year end outturn was presented to the Finance and Property Committee in September 2019. This identified an anticipated cash-backed surplus for 2018/19 of £2.471 million which is in line with the underlying operating surplus of £2.249 million reported in the annual report and financial statements.

48. The final outturn position was significantly healthier than the expected surplus of £0.570 million in the approved 2018/19 budget. How the year end surplus developed throughout 2018/19 is shown in exhibit 5.

Exhibit 5

Summary of reporting of the projected cash-backed surplus during 2018/19



Source: Budget monitoring reports 2018/19

49. The main factors contributing to the favourable year-end outturn position were higher than budgeted income due to additional income from SFC grants (both credits related income and other grants) and non-core income, combined with lower than anticipated pay costs.

Good Practice – The College brought forward expenditure to reduce future costs

Due to the improved budget position reported during 2018/19 the Finance and Property Committee identified that there was an opportunity to bring forward expenditure from future years by making an additional repayment of the Gardyne Campus long-term loan. Management calculated that making an additional repayment of £1 million during 2018/19 would reduce annual capital repayments by £0.111 million per year, and deliver savings in annual interest payments of around £0.013 million per annum, over the remaining five years of the loan term. The Board approved the additional loan repayment at its June meeting and this payment is reflected in the 2018/19 audited accounts.

50. We are satisfied that the College managed its budget effectively during 2018/19.

The College reported an operating deficit of £2.344 million and an underlying operating surplus of £2.249 million for the year to 31 July 2019

51. The College reported an operating deficit for the year to 31 July 2019 of £2.344 million (£1.976 million in 2017/18) in the Statement of Comprehensive Income (SOCI).

52. The position reported in the SOCI includes the impact of non-cash charges such as depreciation and pension adjustments, and capital grants recognised as income. It also excludes other commitments funded from revenue including the allocation of revenue funding for loan repayments. To enable an assessment of the underlying financial strength of an institution, and allow comparison across institutions, the Scottish Funding Council requires colleges to also report the underlying operating surplus for the year by adjusting for these items and any one-off exceptional items impacting on the annual position reported in the SOCI.

53. The underlying operating position of the College reported within the Performance Report shows an underlying operating surplus of £2.249 million for the year to 31 July 2019 (£0.127 million in 2017/18). The significant increase in the underlying operating surplus from the prior year was attributable to a range of factors including:

- voluntary severance and other staff costs savings, and
- the receipt of additional funding for academic harmonisation costs, foundation and modern apprenticeships, child poverty initiatives, and the College's teaching credits performance during the year.

The Dundee and Angus Foundation is providing funding of £0.705 million to support the College's "Good to Great" transformation project

54. In March 2014, the College donated cash-backed reserves of £8 million to the Dundee and Angus Foundation (the Foundation). At 31 July 2018 the Foundation held free reserves of £5.076 million.

55. As part of the College's "Good to Great" transformation project, discussed at paragraphs 136-141, the Foundation provided £0.454 million of funding in 2018/19. A further £0.251 million has been committed to the College in 2019/20, with the transformation project due to be completed by the end of 2019.

High level systems of internal control operated effectively during 2018/19

56. As part of our interim audit work, we reviewed the high-level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain assurance over these controls to support our opinion on the College's financial statements. Our testing did not identify any internal control weaknesses that could affect the College's ability to record, process, summarise and report financial and other relevant data to the extent that it would result in a material misstatement in the financial statements.

The College has strengthened its controls to minimise the risk of further bank mandate frauds

57. During 2018/19 the College were the victim of three bank mandate frauds, two relating to fraudulent changes to employees' bank details and one relating to a fraudulent change to a supplier's bank details.

58. In each case the College received a request from a valid staff e-mail address asking for the existing bank account payment details to be changed to a new account. However, these requests had originated from individuals who had hacked the College e-mail system in order to attempt to re-direct payments intended for legitimate employees / suppliers.

59. The total value of these frauds was less than £10,000 (£2,600 of which has been recovered as the bank had identified suspicious activity and frozen the recipient's bank account) and on discovery of the frauds the College took appropriate action in line with the response plan contained within its Fraud Prevention Policy.

60. Prior to these incidents the College's internal controls did not require staff to undertake any additional checks when such a request had come from a valid employee e-mail address. In response to these frauds the College introduced a new control whereby all bank detail change requests require to be confirmed via a phone call with the employee / supplier who are first asked to confirm existing standing data on the system to verify their identity.

61. As part of our audit testing we reviewed the new control in place and tested the only bank detail change processed since the new control was introduced in April 2019. This confirmed that staff had adhered to the new requirements and adequately documented the checks undertaken.

62. Based on our review of the new control introduced we are satisfied that this should minimise the risk of future bank mandate frauds. It should also be noted that due to the nature of these frauds there is no significant risk that further unidentified bank mandate frauds have taken place as any other employees or suppliers who had not received a payment when due would have contacted the College to query the delay in the payment.

63. Management also confirmed that action has been taken to increase the security of the College's e-mail system by introducing a new password policy and procedure. Alongside this the College ran an awareness campaign to ensure staff remain vigilant at all times when handling requests that appear to come from a valid e-mail address. These measures should reduce the risk of further unauthorised access to the employee e-mail system but we accept that this risk can never be fully mitigated.

Risk management and business continuity arrangements are in place to respond to issues with key suppliers

64. The collapse of Carillion has had a significant impact across the public sector. This has brought into focus the risk of key supplier failure and underperformance of suppliers that are experiencing difficult trading conditions. As part of our 2018/19 audit we undertook a high-level review of the arrangements in place at the College to mitigate the financial and operational risks of the collapse of a key supplier.

65. Management advised that:

- The majority of contracts are tendered through a national procurement service such as Advanced Procurement for Universities and Colleges (APUC), with supplier due diligence factored into this service.

- Procedures are in place for the College to review performance of key supplier contracts. A contract management route is in place for every regulated contract, analysing both the value of the contract along with the risk to the College if the contract was to fail. For strategically important contracts, contract reviews are undertaken, as a minimum, annually, and Key Performance Indicators are set, with performance reviewed against these.

- Any significant issues with contracts or suppliers would be highlighted to members of the Finance and Property Committee and the Audit and Risk Committee.

66. Based on our discussions with management and our understanding of the key suppliers of the College, we are satisfied that risk management and business continuity arrangements are in place to respond to the failure or underperformance of a key supplier.

Part 3

Financial sustainability

Main judgements

The College's five-year Financial Forecast Return projects a negative cash position by 31 July 2024. To address this the College has identified mitigating actions to maximise income generation and deliver operational efficiencies.

The Board has approved a five-year asset management and estates strategy to improve the physical condition of its estate. Alongside this, the College has developed a proposal to build a new Science, Technology, Engineering and Maths (STEM) centre funded by the Scottish Government through a Mutual Investment Model.

The College's five-year financial strategy 2019/20-2023/24 was approved by the Board in March 2019

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

67. In June 2019, Audit Scotland published the *Scotland's colleges 2019* report. This report provided an overview of the college sector and, amongst other things, gave an update on college finances. The report highlighted that while the college sector's underlying financial position improved in 2017/18, factors such as reduced capital funding and additional employer pension contributions are likely to pose a risk to colleges' financial sustainability.

68. Dundee and Angus College's five-year financial strategy covering 2019/20-2023/24 was approved by the Board in March 2019. This included income and expenditure projections for the next five years based on anticipated increases in income and the delivery of planned non-pay savings.

69. The College's updated five-year financial strategy covering 2020/21-2024/25 is due to be taken to the Board in March 2020 and will reflect the developments in the College's financial position highlighted in the 2018/19 Financial Forecast Return, discussed at paragraphs 71-76.

The College has budgeted to achieve a cash-backed surplus of £0.637 million for 2019/20

70. The Board of Management approved the College's 2019/20 budget in June 2019. The budget projected a cash-backed surplus of £0.637 million for the year to 31 July 2020, based on total income of £39.224 million and total expenditure of £38.587 million (including £30.012 million for total pay costs). The key assumptions were clearly outlined in the report and were subject to scrutiny and challenge by members.

The College's five-year Financial Forecast Return projects a negative cash position by 31 July 2024

71. The SFC requires colleges to submit five-year financial forecast returns (FFR) every year. The returns require standard information from all colleges and contribute to the SFC financial health monitoring framework. The SFC provide colleges with common financial planning assumptions to use when preparing their forecasts.

72. At the end of June 2019, Colleges were advised of the format for the 2018/19 Financial Forecast Return (FFR) and the deadline for submission to the SFC of 27 September 2019. The 2018/19 FFR forecasts income and expenditure for the five-year period to 2023/24.

73. The College prepared its five-year financial forecasts through to 2024 as required and submitted these to the SFC. We confirmed that the forecast was based on the standard assumptions provided by the SFC.

74. The FFR shows a projected underlying surplus for 2019/20 of £0.723 million The underlying operating and closing cash positions for 2019/20-2023/24 are shown in exhibit 6. This shows that the College are anticipating an underlying operating deficit for the years from 2021/22 onwards resulting in a negative cash position by 31 July 2024.

Exhibit 6

Projected underlying operating and closing cash balance positions

Year	2019/20 £million	2020/21 £million	2021/22 £million	2022/23 £million	2023/24 £million
Underlying operating position	0.723	0.291	(0.134)	(0.380)	(0.724)
Closing cash position	1.887	1.814	1.316	0.572	(0.516)

Source: Dundee and Angus College 2018/19 Financial Forecast Return

75. The College presented the FFR to the September meeting of the Board. The accompanying paper outlined the mitigating actions planned to address the projected operating deficits in future years. These include plans to maximise future income (e.g. Tay Cities Deal funding, income from new Michelin Innovation Park) alongside existing income streams (e.g. additional credits funding where available, modern apprenticeship funding) and the delivery of continued operational efficiencies.

76. Progress against the above actions will be reported to meetings of the Finance and Property Committee as part of the budget monitoring reports in 2019/20 and we will monitor this as part of our audit.

The successful delivery of the College's medium-term financial plan is susceptible to future reductions in funding and fee income

77. In common with other Scottish Colleges, the vast majority of Dundee and Angus College's annual income comes via Scottish Funding Council grants. In 2018/19 this accounted for 79 per cent of total income, with tuition fees and education contracts accounting for a further 13 per cent.

78. The College's five-year financial strategy 2019/20-2023/24 assumes there will be no cash reduction in funding for 2020/21 and 2021/22 but anticipates a reduction of £0.8 million from 2022/23 onwards due to the European Support Funding programme ending. An increase in tuition fee and other commercial income has been predicted but it is also assumed that staff and other costs will increase at around the same rate.

79. Given that over 90 per cent of the College's annual income comes from SFC funding, and tuition fees and education contracts income, it is clear that the successful delivery of the medium-term financial plan is susceptible to future reductions in these income streams.

The current level of Scottish Government capital funding is insufficient to address Scottish colleges' maintenance requirements

80. Gardiner & Theobald (GT) were appointed by the SFC in 2017/18 to provide a summary of the conditions of the estates within the Scottish Further Education sector. The purpose of this review was to identify the total cost of the works required to bring the estate up to a minimum of condition B (sound, operationally safe, exhibiting only minor deterioration).

81. GT's *College Estate Condition Survey* report, issued in December 2017, estimated a total backlog of repairs and maintenance of £363 million. Of this, £31 million was identified as very high priority work needing to be addressed within one year, and a further £77 million as high priority within two years. The SFC allocated £27 million to the sector in 2018/19 to allow it to address those very high needs.

82. At the time that the estates condition survey was conducted, GT estimated the total value of Dundee and Angus College's backlog maintenance was £19.718 million and the College received £1.236 million of the SFC allocation to address its high priority backlog maintenance.

83. While the additional capital funding provided by the SFC has enabled the College to address some of its high priority backlog maintenance issues, it has not provided a solution to the shortfall of the College's annual capital budget to address existing and emerging repairs and maintenance work to improve the overall quality of the College's estate. This is discussed in more detail at paragraphs 85-89 below.

84. The issues with capital funding across the sector were highlighted in the *Scotland's colleges 2019* report. It stated that the Scottish Government (SG) capital funding is insufficient to address colleges' maintenance requirements. The report recommended that the SFC and the SG agree and publish a medium-term capital investment strategy that sets out sector-wide priorities.

The Board has approved a five-year estates strategy to improve the physical condition of its estate

85. In March 2019, the Board approved the College's five-year estates strategy covering 2019/20 to 2023/24. The strategy describes the existing estate in detail, providing a clear assessment of its current physical condition. It also sets out a plan to be followed during the five-year period and how this will be implemented.

86. The College operates 28 buildings across three main campuses, one in Arbroath and two in Dundee (Kingsway and Gardyne). The College currently has 10 buildings graded below the minimum threshold, with 8 of these being at its Kingsway campus. As part of the College's estates strategy, it has established that it would require £26.273 million of funding in order to bring all building elements to a minimum of condition B. In particular, the learning spaces at the Kingsway campus require significant redevelopment and investment in order to provide acceptable accommodation and continue to meet the needs of the curriculum.

87. In December 2016 the College submitted an Outline Business Case (OBC) to the SFC for the redevelopment of the Kingsway campus. Following a request from the SFC to provide clarifications on a number of points, the College submitted a revised OBC in September 2017, with a complete new build as the preferred option. At the time it was noted that there was neither the capital funding available to support major projects like the Kingsway redevelopment, nor a revenue funding model to provide alternative finance.

88. In August 2019, the College held further discussion with the SFC. The SFC indicated that it would look to support the implementation of the College estates strategy, which amongst other things would include:

- A new build STEM (Science, Technology, Engineering and Maths) centre on the Kingsway campus – discussed at paragraphs 90-93.
- Kingsway tower refurbishment works – discussed at paragraphs 94 and 95.

89. It is clear, that if the condition of the estate deteriorates to the extent that students experience is affected, there is likely to be a reduction in student numbers. This would in turn reduce the income received by the College. However, the development of the five-year estates strategy, together with the College's proactive approach to engaging with the SFC to identify funding solutions, should help to support its commitment of delivering a quality learning environment for future students.

The College is developing a proposal to build a new Science, Technology, Engineering and Maths (STEM) centre funded by the Scottish Government through a Mutual Investment Model

90. In May 2019, the Scottish Government announced that the Mutual Investment Model (MIM) would replace NPD as a means of delivering revenue-funded projects in Scotland.

91. The main benefit of the MIM model from an accounting perspective is that the structure of these schemes is designed to meet the requirements for classification as private-sector controlled projects. This would mean that the Scottish Government would be able to continue to fund large projects under revenue funded contracts without a charge against its capital budget. It should be noted though that the Office of National Statistics ONS) has still to confirm that the Scottish MIM model satisfies the requirements for classification as a private-sector controlled scheme.

92. The SFC advised the College that they should consider the development of its STEM centre as a MIM funded project. As any annual revenue costs associated with the contract would be paid directly by the Scottish Government the cost of this project would not impact directly on the College's finances,

93. For a project to qualify for MIM funding it must be a new build and the contract must be worth at least £20 million. For the purposes of the development of the Kingsway campus, the SFC were supportive of the Outline Business Case that was presented to the Board and the SFC in 2016. The estimated timeframe for the development of the MIM project could see construction start at the College as soon as 2022.

The College will be seeking funding from the Dundee and Angus Foundation to progress the first phase of the Kingsway tower refurbishment works

94. Whilst accepting that the Kingsway campus is no longer a fit for purpose learning environment, the SFC advised that there are no funding models currently available that would enable them to support phase 1 of the development of the Kingsway tower. The SFC therefore supported that the College approach the Dundee and Angus Foundation to seek funding for phase 1 of these works. However, the SFC recognised that there are two distinct phases of the Kingsway tower development and have intimated that they would seek to identify future financing options to support the College to undertake phase 2 of the project.

95. The total cost of phase 1 of the refurbishment is estimated to range from £6.5-£7 million. If funding is secured from the Foundation for this, summer 2020 has been identified as a viable start date for construction works.

The wider implications of EU withdrawal for the college sector remain unclear

96. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. In October 2018, Audit Scotland published the briefing paper: *Withdrawal from the European Union*. The paper emphasised the importance of public sector bodies working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

97. During 2018/19 we performed a high-level review of the College's preparedness for EU withdrawal focussing on each of these three key themes.

98. While the College only employs a relatively small number (50) of non-UK EU nationals, it has offered a good range of support to these staff. As well as providing them with details of the official government guidance, the College's People Team have also provided staff with further information and support, including free group and one-to-one advice through Thorntons Solicitors, the College's immigration partner. Information on the UK government registration team has also been shared with staff. Management advised that there has been a high uptake of the support offered to staff and they will continue to provide assistance as required.

99. The College has identified the level of funding that it receives from the EU and has also completed work to understand the level of EU funding that partner organisations receive that could also impact on its current services. Taking account of this, the long-term financial strategy has been adjusted to take account of the potential worst-case scenario (potential loss of all ESF funding from 2022/23 onwards). The College has also identified the number of non-UK EU nationals that are current students and the number that will not automatically receive settled status. It is taking forward actions to increase recruitment of students in key areas.

100. There are no products or services procured from the EU that are likely to have a significant impact on the operation of the College. As a member of Advance Procurement for Universities and College's, the College is remaining alert to any impacts and changes in guidance.

101. As noted in the *Scotland's colleges 2019* report, the wider implications of EU withdrawal for the college sector remain unclear. While the direct impact on colleges is likely to be relatively small compared to some other parts of the public sector, colleges anticipate that the indirect effects could be much more significant. This includes potential reductions in EU funding that colleges receive through students funded by other organisations.

102. There clearly remains uncertainty as to the detail behind the UK's withdrawal from the EU. However, in our view, the College has taken reasonable action to prepare for the potential impacts. As part of our 2019/20 audit, we will continue to monitor the College's preparations for, and response to, EU withdrawal.

Part 4
Governance and transparency

Main judgements

The College has effective governance and decision-making arrangements and the Audit and Risk Committee provide a good level of scrutiny and challenge.

The College conducts its business in an open and transparent manner.

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

The College has effective governance and decision-making arrangements

103. 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. The corporate governance framework within the College is centred around the Board, supported in its role by the following five committees:

- Audit and Risk Committee
- Finance and Property Committee
- Human Resources and Development Committee
- Learning, Teaching and Quality committee, and
- Chairs Committee (comprising the Chair and Vice-Chair of the Board and the Chairs of the other four committees).

104. Each committee is chaired by a member of the Board of Management and comprise of other Board members. The Principal of the College is also a member of all committees other than the Audit and Risk Committee. This is in line with the Code of Good Governance for Scotland's Colleges guidance which also prevents the Chair of the Board being a member of the Audit and Risk Committee.

105. All Board members regularly participate in development sessions to ensure they have the skills and knowledge to undertake their role effectively.

The Audit and Risk Committee provide a good level of scrutiny and challenge

106. The Board of Management delegates responsibility for scrutiny to the Audit and Risk Committee which meets quarterly. We have noted from our attendance at the committee that members demonstrate a clear understanding of their responsibilities, and of the respective roles of management, internal audit and external audit. We have also observed a good level of scrutiny and challenge by members over policy decisions and performance.

The next external evaluation of the effectiveness of the Board of Management is scheduled for 2020

107. The Code of Good Governance for Scotland's Colleges prescribes that the College Board must keep its effectiveness under annual review and have in place a robust self-evaluation process.

108. A full Board self-evaluation was undertaken during 2018 and the report and development plan was approved at the June 2018 Board meeting. An update on the progress in delivering this plan was then reported to the June 2019 Board meeting.

109. The Board are also expected to facilitate an external evaluation of its effectiveness at least every three years. The last external evaluation was undertaken in September 2016 and a further review was therefore due during 2019. However, management has advised that the next review has been rescheduled until 2020 to coincide with the planned changes to the Code of Good Governance for Scotland's Colleges that are anticipated to be implemented in early 2019/20.

110. The College should ensure that the planned external evaluation of the Board's effectiveness is undertaken during 2020 and reported to the Board prior to the end of the financial year (i.e. 31 July 2020). We will consider the outcome of this review as part of our 2019/20 audit.

Recommendation 1 (Appendix 1 - Action Plan)No_1

The current Board of Management has an equal gender split

111. During 2018/19, the Board consisted of 18 members, comprising of the Principal, 14 non-executive members, and one teaching, one non-teaching, and one student member. We are pleased to note that the current membership of the Board meets the objective of the Gender Representation on Public Boards (Scotland) Act 2018 which was introduced by the Scottish Parliament in June 2017 with an implementation date of 2022. The Act sets an objective for public boards that 50 per cent of their non-executive members are women.

The College conducts its business in an open and transparent manner

112. There is an increasing focus on how public money is used and what is achieved. Transparency means that the public have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using resources such as money, people and assets.

113. There is evidence from several sources which demonstrate the College's commitment to openness and transparency:

- The agendas, papers and minutes of the Board of Management and other committees are published on the College's website on a timely basis.
- The College makes its annual report and financial statements available on its website. These include a performance report which adequately explains the College's financial performance for the year.
- The website also provides the public with access to a wide range of corporate information including details of the College's strategy, performance information, and equality and diversity reporting.

Internal audit concluded that the College had adequate risk management, control and governance arrangements in place during 2018/19

114. The College's internal audit function is carried out by Henderson Loggie. The internal audit service, in any organisation, is an important element of internal control. It provides members and management with independent assurance on risk management, internal control and corporate governance processes as well as providing a deterrent effect to potential fraud.

115. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our 2018/19 audit we carried out an assessment of the internal audit function. This confirmed that the internal auditors have adequate documentation standards and reporting procedures in place and comply with the requirements of the Public Sector Internal Audit Standards (PSIAS).

116. During 2018/19 we placed reliance on aspects of internal audit's reviews of risk management / business continuity and cyber security, as detailed at paragraphs 118-122, as part of our wider dimension work.

117. We also considered internal audit's Annual Report as part of our review of the Governance Statement included within the Accountability Report in the 2018/19 report and financial statements. This provided internal audit's opinion that that the College had adequate risk management, control and governance arrangements in place during 2018/19.

Internal audit reported that the College has satisfactory risk management and business continuity arrangements

118. Internal audit's risk management review found that the College has identified the key risks affecting it, with these being appropriately controlled, mitigated, reported and discussed at appropriate levels of management and the Board of Management. Internal audit also found that the processes in place reflect good practice in risk management.

119. Internal audit's review of business continuity established that Business Continuity Plans (BCPs) are in place covering all of the College's key activities. The BCPs are workable, properly communicated to members of staff, and have been adequately tested, with the processes and procedures in place following recommended good practice.

Good Practice – The College has tested its business continuity plans for responding to a critical incident

In September 2019 the College engaged its insurers Zurich to facilitate a Disaster Recovery development session. This was designed to test the ability of the Senior Leadership Team, and other staff, to use the BCPs to respond to a critical incident scenario. This confirmed that the existing BCPs are fit for purpose but also identified further improvements that could be made to strengthen the business continuity arrangements. Further development sessions focussing on other potential scenarios are planned in the future.

The College has cyber essentials basic accreditation and is working towards achieving the cyber essentials plus accreditation

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

121. As part of our work in 2017/18, we concluded that the College was actively strengthening its cyber resilience arrangements, had completed its Cyber Essentials pre-assessment by the required date (31 March 2018) and obtained the Basic Accreditation by the end of 2018.

122. In 2018/19 internal audit undertook a review of the College's current position with the Scottish Government Public Sector Action Plan (PSAP) which forms part of the cyber resilience strategy for Scotland. They provided a satisfactory level of assurance and concluded that the College is making good progress in implementing the key actions set out in the PSAP, including independent assurance of critical cyber security controls, incident response plans, along with training and awareness-raising. The College is currently working towards Cyber Essentials Plus certification.

There was a significant delay in the College submitting some of the data reports for the National Fraud Initiative exercise

123. The National Fraud Initiative (NFI) is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity. The NFI takes place over two years and the results of the last exercise were contained in the *National Fraud Initiative in Scotland* report published in July 2019. The current exercise (running over 2018/19 and 2019/20) is the first time that the College has actively participated in the NFI.

124. The first stage of the NFI exercise requires participating bodies to submit a range of data reports that are used as part of the data matching process. Colleges are required to submit both creditor and payroll data. The deadline for submission of these reports was the end of October 2018. However, due to staffing pressures the College did not submit its NFI payroll data reports until March 2019.

125. We also noted during the year that the College's initial progress in updating the online NFI system with the progress in investigating its matches was also slow with only 3 cases shown as processed or in-progress at the end of July 2019. These were the matches flagged as high priority for investigation. Management advised that the information recorded on the system did not reflect the actual progress made with these investigations and confirmed that the system would be brought up to date.

126. We reviewed the online NFI system again at the end of October 2019 and are pleased to report that this now shows good progress with the investigation of all matches now complete as detailed in exhibit 7. We will continue to monitor the College's participation in the NFI exercise as part of our 2019/20 audit.

Exhibit 7
NFI activity

199

Matches

3

High priority for investigation

199

Processed / In progress

Source: NFI secure website

The College should review its internal controls following the conclusion of the investigation of the NFI matches

127. Investigation of the College's NFI matches identified two instances of duplicate payment of invoices (i.e. the same invoice being paid twice). The value of the duplicate payments was less than £2,000 and these amounts have now been recovered from the relevant suppliers. However, the College should review the controls in place to prevent future duplicate payments occurring. It should also consider the outcome of the investigation of the remaining matches to identify whether other improvements can be made to the internal control environment to further reduce the risk of fraud and misappropriation.

Recommendation 2 (Appendix 1 - Action Plan)No_2

Responsibility for the oversight of the College's progress with the NFI exercise has been assigned to the Audit and Risk Committee

128. At its September 2019 meeting the Audit and Risk committee considered the *National Fraud Initiative in Scotland* report on the last NFI exercise. The committee also noted that the College's Fraud Prevention Policy will be revised to incorporate NFI and formally approved NFI progress and outcomes being reported through this committee.

The College has adequate arrangements for the prevention and detection of fraud and other regularities

129. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and ensuring that their affairs are managed in accordance with proper standards of conduct.

130. The Board has a range of activities in place designed to prevent and detect fraud, error and irregularities, bribery and corruption. These include:

- a fraud prevention policy and response plan
- an anti-bribery policy
- a public interest disclosure policy (this includes details of the College's whistleblowing arrangements), and
- the College's code of conduct for members of the Board of Management.

131. As detailed at paragraphs 57-62 , the College were the victim of three bank mandate frauds during 2018/19. On discovery of the frauds, the College took appropriate actions in line with the response plan contained within its Fraud Prevention Policy.

Part 5

Value for money

Main judgements

The College has proper arrangements in place to promote and secure value for money.

The College reported good attainment and retention rates for 2017/18.

Arrangements are in place to ensure the College meets its responsibilities under the Equality Act 2010. There is also evidence that the principles of fairness and equality are embedded within the organisation.

The College has made good progress against the recommendations in the Scotland's colleges 2019 report published by Audit Scotland in June 2019.

The College has proper arrangements in place to promote and secure value for money

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

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

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

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

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

135. Internal audit does not consider value for money as a standalone review, however, they consider this within all audits. Internal audit did not raise any concerns over value for money in 2018/19 and their Annual Report for 2018/19 provided their opinion that '*…proper arrangements are in place to promote and secure Value for Money*'. This opinion was arrived at taking into consideration the work they had undertaken during 2018/19 and in each of the previous years since they were first appointed by the College in 2013/14.

The College reports that its Good to Great strategy has had a significant impact on the overall experience of students

136. Key to delivering Value for Money is a clear focus on driving continuous improvement across all areas of the College's activities.

137. The College's Good to Great strategy is a two-year transformation project that was launched in 2017/18 with the aim of ensuring that "From 2020 onwards, Dundee and Angus College will be the outstanding model of how regional colleges in Scotland operate and how they impact on their local economy".

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

- Recruitment
- Retention
- Customer Experiencing
- Learning and Teaching
- Digital

139. Each of these overarching themes encompassed a range of projects and related activities that included both centrally managed developments and staff initiated and led projects, Exhibit 8.

Exhibit 8
Good to Great projects and activities

Recruitment	Retention	Digital	Learning & Teaching	Customer Experience
• Funding Focus • Recruitment Days • Help Points • Learn 2 Learn • Onboarding • You Tube Channel	• Escape Room • Wellbeing • Government Retention Project • Curriculum Area Pilots	• Digital Community • Digital Curriculum • Digital Environment • D&A Baseline • Data Project • MyLearning Changes	• Gateway Programmes • IIIR Curriculum Portfolio Review • Curriculum Resources • Future Talent • Career Coach • CommuniTay STEM Bus	• Customer Charter • College Website • SA / SU Website • Good to Great Student Ambassadors • Stakeholder Advisory Boards

Source: Good to Great Transformation Project progress report to Board of Management (September 2019)

140. The Good to Great project is now nearing its conclusion and the latest project update to the Board of Management in September 2019 stated that the College are seeing a significant impact of the project on the overall experience of our students. It also highlighted the following key outcomes and developments that have been delivered through the project:

- Improved recruitment and on-boarding approaches have led to many students receiving travel support and funding earlier than in previous years
- A drop in the number of applicants that did not receive an offer to study at the College
- The College's highest ever level of Schools Engagement
- The provision of a fully functioning Escape Room, with a second due to open before the end of 2019
- A new and unique Cyber Security Lab, launched in June 2019
- The purchase of state-of-the-art equipment to further support new curriculum delivery

- The launch of a new Gateway into Care course (building on the success of new Gateway provision in 2018/19), and
- The #DAWellbeing Project continuing to support both students and staff wellbeing.

141. Following the conclusion of the project the College plan to conduct a full post-project review to evaluate the extent of the success of the transformation programme in delivering its intended outcomes. The results of the evaluation will be reported to the Board of Management and we will consider this as part of our 2019/20 audit.

Performance against the National Measurement Framework is regularly reported to the Board of Management

142. The Regional Outcome is a formal signed agreement between the Dundee and Angus College Board of Management and the Scottish Funding Council which commits the College to deliver a number of outcomes and outputs as a condition of the funding received.

143. The agreement also sets a number of targets which the College has agreed to achieve in relation to the National Measurement Framework. This is a set of measures for the College that are monitored and reported on by the Scottish Funding Council. The College's funding is closely linked to its performance against the Framework and therefore these measures are a key area of focus for the Board of Management.

144. 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 and include details of performance against the National Measurement Framework. The College's committees are responsible for more detailed consideration of these performance measures.

The College exceeded its student activity credits target for 2018/19

145. One of the priority measures contained with the National Measurement Framework is the student activity credits target. The SFC set an individual credits target for each college every year and where these are not achieved the SFC can decide to recover funding.

146. For 2018/19 the College's student activity credits target was set at 107,808 credits (inclusive of 4,494 European Social Fund (ESF) credits). The College exceeded this target by delivering 109,345 credits. The College also successfully delivered an additional 1,500 credits that SFC transferred to it during the year. The College's above target performance, and additional transfer of credits, resulted in the receipt of additional funding of around of £0.230m.

Exhibit 9

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

Year	Core activity target	Activity delivered	Difference
2018/19	109,308*	109,345	+ 37 credits
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

** The 2018/19 credit target shown includes the additional 1,500 credits that SFC transferred during the year.*

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

147. The College has a good track record of meeting and exceeding its credits targets, Exhibit 9. The student activity credit target set by the SFC for 2019/20 of 107,735 is almost unchanged from last year, with a reduction of only 73 credits.

The College's validated self-evaluation of performance graded the leadership and quality culture as excellent

148. The SFC and Education Scotland, the national body for supporting quality and improvement in learning and teaching, introduced a new quality assessment evaluation framework for colleges, *How good is our college?* in 2016. The new quality framework is based on a validated self-evaluation and is intended to enable colleges to assess progress and develop an improvement plan.

149. In February 2019, individual college results were published for the first time with grades in three categories: Outcomes and impact, Delivery of learning and services to support learning, and Leadership and quality culture. The College was graded as 'Very Good' for the first two categories and "Excellent" for the third.

150. The College also developed an enhancement plan to further improve and enhance the quality of leadership, learning, teaching, and services.

The College reported good attainment and retention rates for 2017/18

151. The *Scotland's colleges 2019* report included a nationwide comparison of the performance of Scotland's 26 colleges during 2017/18 against the following four key performance indicators that provide a broad indication of a college's performance:

- Attainment rates
- Retention rates
- Positive destinations (based on 2016/17 leaver's destination data), and
- Student satisfaction levels (based on data for the 15 colleges with a survey response rate of 50% or more).

152. This highlighted that Dundee and Angus College had improved against all four indicators during the year and were in the top quartile of performance for attainment and retention rates, and the second top quartile for student satisfaction levels. The College's performance was in the bottom quartile for students entering positive destinations based on 2016/17 data but management has advised that the 2017/18 data shows performance has significantly improved against this measure. The SFC has not yet published comparative performance data for 2018/19.

Good Practice – The College has well developed student engagement arrangements

During the year internal audit carried out a review of the College's framework of student engagement structures and activities. This concluded that the College has a good student engagement framework in place which includes an established mechanism for engaging with students and gathering students' views. The impact of these strong student engagement arrangements was reflected in the results of the 2017/18 Student Satisfaction and Engagement Survey (SSES) with 95.4 per cent of students saying they were satisfied with their overall college experience.

Our audit testing in 2018/19 did not identify any instances of non-compliance with the financial regulations for procurement

153. 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.

154. The strategy together with the procurement policy sets out the operational framework of how the College conducts procurement. The policy is focussed on maintaining the integrity of process and, combined with this, the strategy sets out the College's strategic approach to procurement.

155. The processes in the strategy and policy adhere to best practice procurement principles and are complaint with the requirements of the Procurement (Scotland) Regulations 2016, Public Contracts (Scotland) Regulations 2015 and the Procurement Reform Act 2014 following the Scottish Government Procurement Journey.

156. In 2017/18 we identified an ICT maintenance contract and two leases that were entered into without first being approved by the relevant delegated authority. At the time management confirmed that the scope of the financial regulations would be reaffirmed.

157. Our audit testing in 2018/19 did not identify any instances of non-compliance with the financial regulations and delegated levels of authority. We also confirmed that expected and recurring contract renewals for the upcoming calendar year, that exceed the delegated authority limit of £50,000, are now presented to the Finance and Property Committee for members to consider and approve.

158. Based on the scope of our work, we have concluded that there are appropriate financial regulations, and processes, in place in relation to procurement. Internal audit will be undertaking a review of the College's procurement as part of their 2019/20 audit plan. We will consider their findings as part of our 2019/20 audit.

There is evidence that the principles of fairness and equality are embedded within the organisation

159. As part of our 2018/19 audit we conducted a high-level review of the College's arrangements for ensuring that they meet their responsibilities under the Equality Act 2010 and considered the extent to which the principles of fairness and equality are embedded within the organisation.

160. The Equality Act 2010 requires public bodies to consider all individuals when carrying out their day-to-day work: in shaping policy, in delivering services and in relation to their own employees. The public sector equality duty, also known as the general equality duty, covers the protected characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation. This duty requires public bodies to have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by the Equality Act
- advance equality of opportunity among all people, and
- foster good relations between different people when carrying out their activities.

161. The Scottish Specific Duties (introduced in May 2012) requires listed authorities to carry out the following activities:

- report on mainstreaming the equality duty
- publish equality outcomes and report progress
- assess and review policies and practices
- gather and use employee information
- publish gender pay gap information

- publish statements on equal pay, and
- consider award criteria and conditions in relation to public procurement.

162. Further education colleges are listed authorities for both the Equality Act and the Specific Duties in Scotland. Consequently, they are required to report progress on mainstreaming the public sector equality duty and to report progress on their published equality outcomes.

163. Dundee and Angus College published its most recent Equality Mainstreaming Report in April 2019 and made this available to the public via the College's website. The report details of the range of activity taking place across the organisation and within the wider community to support the delivery of each of the College's Equality Objectives that support the overall equality vision: "To be recognised as a completely inclusive organisation, in which all people can participate fully as equal citizens". The report also contains the required information on employment equalities and the gender pay gap, and also includes the College's equal pay statement.

164. Our work also identified a range of other activities across the College that address the other requirements of the Equality Act and ensure that fairness and equality is embedded within the organisation. These include:

- Completion of equality impact assessments for all relevant policies and procedures – These consider how a policy or function will affect the wellbeing of different groups of people, with particular needs, or who are disadvantaged in some way, and provide an opportunity to drive fairness and good business practice.
- Publication of a British Sign Language (BSL) Action Plan 2018-2024 – The College has developed a BSL Action Plan to enable BSL users (those individuals whose first or preferred language is BSL) to be fully involved in daily and public life as active, healthy citizens able to make informed choices about all aspects of life.
- Preparation of a range of other reports and policies to support the College in delivering its equality duties – These include the publication of a Gender Pay Analysis Report and Action Plan (April 2019), a Carers' Policy (March 2018) and a Corporate Parenting Plan (March 2018).
- Staff absence support – The College offers a range of support through Occupational Health including access to counselling for mental health related conditions and physiotherapy appointments, to help speed recovery and return to work.

165. Overall, we have concluded that the College has arrangements in place to ensure it meets its responsibilities under the Equality Act 2010. There is also evidence that the principles of fairness and equality are embedded within the organisation.

Appropriate arrangements are in place for consideration of Audit Scotland national reports

166. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, we published several reports which may be of interest to the College. These are outlined in appendix 3.

167. Appropriate arrangements are in place for the College to consider relevant national reports. For example, the *National Fraud Initiative in Scotland* report was considered by the Audit and Risk Committee in September 2019.

The College has addressed the recommendations in the Scotland's colleges 2019 report

168. The *Scotland's colleges 2019* report included specific recommendations for all colleges. The College provided all Board members with a copy of the report and have taken action to address the relevant recommendations within the report, exhibit 10.

Exhibit 10

Progress against the recommendations in the Scotland's colleges 2019 report

Recommendation	College progress to date
College's should agree their underlying financial position with the SFC prior to finalising their accounts.	**Complete** As detailed at paragraphs 51-53, the College has reported an underlying operating surplus of £2.249 million for the year to 31 July 2019 within the Performance Report. This figure has been calculated in accordance with the *Adjusted Operating Position Calculation* guidance issued by the SFC on 24 September 2019.
College's should improve data collection and response rates for student satisfaction and publish results.	**Complete** The College has adequate arrangements in place for conducting the annual Student Satisfaction and Engagement Survey (SSES) and was one of the 15 colleges with a student survey response rate of over 50% during 2017/18. The College advised that the SFC do not currently permit colleges to publish the results of the survey as the data is only provided for the purposes of internal benchmarking and evaluation. In addition to the SSES, the College also conduct its own student satisfaction surveys and report the results to the Learning and Teaching Committee. The College should consider making the results of these surveys available on the student pages of the website where appropriate.
Colleges should use *How good is our college*? effectively to drive improved performance and enhance the quality of service provision.	**Complete** As detailed at paragraphs 148-150, the College completed the *How good is our college?* self-evaluation has developed an enhancement plan to further improve and enhance the quality of leadership, learning, teaching, and services.
College boards should agree medium-term financial plans that set out the mitigating actions to ensure their college's financial sustainability.	**Complete** As detailed at paragraph 68, the College's five-year financial strategy 2019/20-2023/24 was approved by the Board in March 2019.
College boards should submit agreed medium-term financial plans to the SFC along with financial forecast returns (FFRs).	**Complete** As detailed at paragraphs 71-76, the College submitted its medium-term financial plans and FFR to the SFC by the 27 September 2019 submission deadline.

Source: Audit Scotland

Appendix 1

Action plan 2018/19

2018/19 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	**External evaluation of the effectiveness of the Board** A three-yearly external evaluation of the effectiveness of the Board was due to be undertaken during 2019 but has been deferred to 2020. ***There is a risk that the Board is not operating effectively***	The College should ensure that the planned external evaluation of the Board's effectiveness is undertaken during 2020 and reported to the Board of Management prior to the end of the financial year (i.e. 31 July 2020). Paragraphs 107-110	An external evaluation of the effectiveness of the Board will be facilitated following the issue of the revised Code of Good Governance for Scotland's Colleges. **Responsible officer:** Vice Principal – People and Performance **Agreed date:** July 2020
2	**NFI** Investigation of the College's NFI matches identified two instances of duplicate payment of invoices. ***There is a risk of further duplicate payments in the future***	The College should review the controls in place to prevent future duplicate payments occurring. It should also consider the outcome of the investigation of the remaining matches to identify whether other improvements can be made to the internal control environment to further reduce the risk of fraud and misappropriation. Paragraph 127	Operator error was responsible on both occasions when incorrect numbers were keyed in. Due diligence has however generally been very effective given that 42,000 records were reviewed. The finance system will only accept unique numbers, preventing duplicate entry. The risk of repetition is low but the requirement for Purchase Orders is continually being emphasised, thereby further reducing this risk. Additional routine scrutiny of data will be undertaken in response to issues arising, however from a total 199 matches, only 26 are classified as 'errors', of which the 24 not highlighted were duplicate supplier accounts now closed. The majority of matches did not produce issues of concern. **Responsible officer:** Head of Finance **Agreed date:** Immediate

No.	Issue/risk	Recommendation	Agreed management action/timing
Follow up of prior year recommendations			
PY1	**Performance report** The audit team identified several areas for improvement in the performance analysis section of the unaudited accounts. ***There is a risk of a lack of transparency in the annual report.***	Management should review all section of the accounts to ensure that appropriate disclosures are made.	**Action complete**
PY2	**Governance statement** The governance statement did not comply with guidance in a number of areas. ***There is a risk of inappropriate levels of disclosures in the financial statements.***	Management should review all section of the accounts to ensure that appropriate disclosures are made	**Action complete**
PY3	**Compliance with financial regulations** An ICT maintenance contract and two leases were entered into without first being approved by the relevant delegated authority. ***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.	**Action complete**

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 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 significant transactions outside the normal course of business were identified.
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 £41million in 2017/18, of which £32million was provided by the Scottish Funding Council (SFC) and £9million 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,	• Analytical procedures on income streams. • Detailed testing of revenue transactions 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 revenue transactions.

Audit Risk	Assurance Procedure	Results and Conclusions
there is an inherent risk of fraud.		
3 Risk of fraud over expenditure The Code of Audit Practice expands the consideration of fraud under ISA 240 to include the risk of fraud over expenditure. This applies to the College due to the variety and extent of expenditure incurred.	• Audit work on the National Fraud Initiative matches • Analytical procedures on expenditure streams. • Detailed testing of expenditure transactions, including cut-off testing, focusing on the areas of greatest risk.	• The College's initial progress in updating the online NFI system with the progress in investigating matches was slow. However, we have concluded that adequate arrangements were in place to follow up NFI matches during the year. • We obtained satisfactory explanations for any significant increases or decreases in expenditure. • Satisfactory results were obtained from our testing of expenditure transactions.
4 Estimations and judgments There is a significant degree of subjectivity in the measurement and valuation of the following material account areas: • pension liabilities • provisions This subjectivity represents an increased risk of misstatement in the financial statements.	• Review appropriateness of actuarial assumptions. • Confirm pension valuations in actuarial report are correctly reflected within the 2018/19 accounts. • Review of accounting estimates and disclosures. • Additional assurances obtained from legal and HR officers in relation to provisions.	• We assessed the reliability of the actuary and reviewed their work. No issues were noted. • Pension disclosures agreed in full to information from actuaries, or to financial records where applicable. This included verification of pension entries in audited financial statements to the IAS19 report reflecting the impact of McCloud ruling and the guaranteed minimum pensions issue. • Judgements and estimations applied were tested to confirm they were appropriate and reasonable. No issues were highlighted with the judgements and estimates applied. • An unadjusted error has been reported in relation to the requirement to provide for the clawback of ESF funding (issue 3 in exhibit 3). However, this is an isolated error that does not have a pervasive effect on the recognition of provisions in the audited financial statements. • We obtained assurances from HR in relation to provisions. This supported the information included in the financial statements.
5 Performance report and governance statement	• Review of the performance report and governance statement	• The 2018/19 performance report presents a reasonable picture of the College's performance.

Audit Risk	Assurance Procedure	Results and Conclusions
As part of our 2017/18 review of the performance report and governance statement, we identified several areas for improvement to ensure disclosures complied with relevant guidance. There is a risk of inappropriate levels of disclosures in the report and financial statements.	against relevant guidance to ensure compliance	• The College's governance statement reflects current good practice.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
6 Financial sustainability The further education sector continues to face significant funding reductions alongside emerging cost pressures such as the costs of national bargaining, estate maintenance and the potential loss of EU funding. The College has a financial strategy covering 2019/20-2023/24. This identifies that savings of £2.75 million are required over the next five years. However, the savings required may be significantly greater should any of the College's assumptions not be realised. For example, zero growth in non-core income would reduce income and increase the requirement for savings by £3.2m by 2024. With additional income generation and non-pay savings already factored into the projections, the College is expecting much of the savings required to come from reduced head count achieved through voluntary severance. There is a risk that the College fails to achieve the planned savings, including voluntary severance projections, and this negatively impacts on their cash balances over the next five years.	• Monitor progress on achievement of financial targets. • Ongoing assessment of the College's five-year financial strategy, including the assumptions used. • Monitor achievement of financial targets, including student credits targets. .	• The College managed its budget effectively during 2018/19. • The College's five-year Financial Forecast Return projects a negative cash position by 31 July 2024. • The College requires to deliver savings totalling £2.750 million over the next five years. • The successful delivery of the College's medium-term financial plan is susceptible to future reductions in funding and fee income. • The College exceeded its student activity credits target for 2018/19.
7 Estates investment In December 2017, the Scottish Funding Council (SFC) published its college sector estates condition	• Ongoing assessment of the College's five-year estates strategy.	• The Board has approved a five-year asset management and estates strategy to improve the physical condition of its estate.

Audit Risk	Assurance Procedure	Results and Conclusions
survey. This identified a backlog of repairs and maintenance of £360 million, £31 million was identified as very high priority work needing to be addressed within one year, and a further £77 million as high priority within two years. The SFC has allocated £27 million to the sector in 2018/19 to allow it to address those very high needs. Dundee and Angus College received £1.236 million for their high priority backlog maintenance. The College's estimated value of backlog maintenance is £19.718 million, as determined through the campus condition survey conducted by the SFC. The College has in place a detailed five-year estate strategy 2019/20 -2023/24 to address backlog maintenance. However, the College acknowledges that significant capital funding will need to be obtained to progress with the necessary works. There is a risk that the College estate requirements cannot be met through the SFC core funding. If the condition of the estate deteriorates to the extent that students cannot be attracted, there is likely to be a reduction in student numbers, which will in turn reduce the funding received by the College		• The College has developed a proposal to build a new Science, Technology, Engineering and Maths (STEM) centre funded by the Scottish Government through a Mutual Investment Model. • The College are seeking funding from the Dundee and Angus Foundation to progress the first phase of the Kingsway tower refurbishment works.
8 National fraud initiative The National Fraud Initiative (NFI) is a data-matching exercise led by Audit Scotland to aid the detection of fraudulent payments. NFI allows public bodies to investigate matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that bodies have put in place to prevent and detect fraud, including	• Monitor the College's participation and progress with NFI.	• Responsibility for the oversight of the College's progress with the NFI exercise has been assigned to the Audit and Risk Committee. • The College's initial progress in updating the online NFI system with the progress in investigating matches was slow. However, we have concluded that adequate arrangements were in place to follow up NFI matches during the year.

Audit Risk	Assurance Procedure	Results and Conclusions
how they approach the NFI exercise itself. Whilst trade creditor data was uploaded, the College was late in submitting its NFI payroll data. The current data matching exercise was due to collect data from the College in October 2018. Due to staffing pressures, the College only submitted this data in early March 2019. Match investigation work will commence in due course. There is a risk that fraud and error may not be detected timeously.		
9 Plans and policies A number of corporate plans and policies require to be reviewed and updated, including: • standing orders • board of management code of conduct • ICT strategy • risk management policy There is a risk that these plans and polices are not relevant and appropriate to the needs of the College.	• Monitor progress of implementation. • Consider the adequacy and appropriateness of the revised documents.	• The standing orders and board of management code of conduct available remain the most recent and reflect the most recent Code of Good Governance. The Code of Good Governance is to be updated with the revised guidance likely to be implemented in early 2019/20. The College will update the key governance documents as required to incorporate any changes. • In 2018/19, the College introduced a Digital Strategy which supersedes its previous ICT Strategy. This is the document which will be used for its ICT strategic direction going forward. • Internal Audit undertook a review of the College's risk management in 2018/19. They found that the College has identified the key risks affecting it, with these being appropriately controlled, mitigated, reported and discussed at appropriate levels of management and the Board of Management. Internal audit found that the processes in place reflect good practice in risk management. We have placed reliance on Internal Audit's work in this area.

Appendix 3

Summary of national performance reports 2018/19

2018/19 Reports

Forth Replacement Crossing		**Aug**		Major project and procurement lessons
Children and young people's mental health		**Sept**		Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		**Oct**		
Health and social care integration: update on progress		**Nov**		Local government in Scotland: Financial overview 2017/18
		Dec		
		Jan		
		Feb		
		Mar		Local government in Scotland: Challenges and performance 2019
		Apr		
Social security: Implementing the devolved powers		**May**		
		Jun		Scotland's colleges 2019
		Jul		

Further Education relevant reports

Scotland's colleges 2019 - June 2019

Dundee and Angus College
2018/19 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk