Dumfries and Galloway College

2019/20 Annual Audit Report to the Board of Management and the Auditor General for Scotland

December 2020

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Key messages

Annual report and accounts audit

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

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

Wider scope audit

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

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

Our conclusions and key observations are set out below:

Conclusion

Governance statement

- We are satisfied that the Governance Statement has been prepared in accordance with the SFC Accounts Direction and that the content is consistent with the financial statements.
- Internal audit has expressed concerns within their Annual Report that there are weaknesses in the framework for risk management, governance and internal control. A 'Partial Assurance' opinion was provided on three audits in 2019/20 relating to staff development, petty cash and expenses, and curriculum planning. The College has concluded within the Governance Statement that there is an appropriate framework of internal controls in place, but that this is subject to the focussed improvements highlighted by internal audit.
- We have not identified any significant weaknesses or governance issues in the College's accounting and internal control systems throughout the year or as a result of remote working during the Covid-19 pandemic

Financial sustainability

- The College reported an operating deficit of £1.950million for 2019/20 (£1.513million in 2018/19), equating to 14% of the College's total income. Adjusting for non-cash transactions, the College shows an adjusted operating deficit of £0.607million (surplus of £0.054million in 2018/19)
- The College has effective arrangements in place for undertaking short and medium term financial planning, although it continues to face significant challenges and is operating within tight financial parameters. Effort and activity continues to reach a long term sustainable position. The Board approved the 2020/21 budget in July 2020, forecasting an underlying operating surplus of £0.048million.
- Staff costs continue to be a significant pressure area, although work is underway through the Transformation Plan to address this. The voluntary severance scheme approved in 2019/20 is expected to deliver recurring savings of £0.567million from 2020/21 onwards and management plan for a further reduction of 10 FTE through a second scheme in 2020/21. Budgeted staff costs for 2020/21 are 11% lower than actual costs recognised in 2019/20. Delivery of planned savings requires close monitoring to ensure these remain achievable and do not impact on the College's ability to deliver a high quality service.
- The Transformation Plan has been reviewed in light of the Covid-19 pandemic. Whilst it was deemed that drivers for change and overall objectives remain valid, the impact of Covid-19 has highlighted the need to accelerate the pace of change in some areas. Plans have been rephased and the financial impact reflected in the 2020/21 budget and future forecasts.

This report concludes our audit for 2019/20. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

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December 2020

Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of Dumfries and Galloway College for 2019/20.

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

The Board of Management has been designated as "those charged with governance".

Introduction

1. This report summarises the findings from our 2019/20 audit of Dumfries and Galloway College ("the College").

2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit Committee at the outset of our audit. The core elements of our work include:

   - an audit of the 2019/20 annual report and accounts and related matters;
   - consideration of the College's arrangements against the audit dimensions within the Code of Audit Practice (Exhibit 1);
   - monitoring the College's participation in the National Fraud Initiative (NFI); and
   - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice

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

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

5. We discussed and agreed the content of this report with the Head of Finance. We would like to thank all management

and staff for their co-operation and assistance during our audit.

Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

7. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standards. In our professional judgement, the audit process is independent, and our objectivity has not been compromised in any way.

8. We set out in Appendix 1 our assessment and confirmation of independence.

Adding value through the audit

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

Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

Openness and transparency

11. This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Annual report and accounts

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

In this section we summarise the findings from our audit of the 2019/20 annual report and accounts.

Annual report and accounts

An unqualified audit opinion on the annual report and accounts

We have reported unqualified opinions on the financial statements, regularity and on other prescribed matters for the year ended 31 July 2020. We did not identify any significant adjustments to the unaudited annual report and financial statements.

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

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

Overall conclusion

12. The annual report and accounts for the year ended 31 July 2020 were considered by the Audit Committee and then approved by the Board of Management on 8 December 2020. We report within our independent auditor's report:

    - An unqualified opinion on the financial statements;
    - An unqualified opinion on regularity; and
    - An unqualified opinion on other prescribed matters.

13. We are also satisfied that there were no matters which we are required to report by exception.

Our assessment of risks of material misstatement

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

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

Management override

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

Noted in the 2019/20 External Audit Plan

15. We have not identified any indications of management override in the year, outside the normal financial control processes. We have reviewed the College's accounting records and obtained evidence to ensure that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

Revenue recognition

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

Noted in the 2019/20 External Audit Plan

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

17. For non-SFC revenue streams, we have gained reasonable assurance over the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusions, we evaluated the College's key revenue streams and

performed detailed testing over the College's revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year

Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "*The Audit of Public Sector Financial Statements"* which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

Noted in the 2019/20 External Audit Plan

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

Estates development

The College continues to make significant investment in the redevelopment of the campus in 2019/20. £4million is expected to be invested over the course of the project on new buildings, interior fit out and refurbishment of the campus. By year end (31 July 2020), a significant element of this activity is expected to be reflected in the financial statements as capital additions. The Finance Team is engaging external expert support to ensure progress, values and related narrative disclosures reflects accounting requirements for 2019/20.

Noted in the 2019/20 External Audit Plan

19. The College recognised capital additions of £2.681million in 2019/20 and transferred £3.930million from assets under the course of construction to operational land and buildings. We have reviewed these capital transactions to ensure these have been accounted for in line with the Statement of Recommended Practice: Accounting for Further and Higher Education (2019) (the 2019 SORP) and the College's accounting policies. In addition, we reviewed expenditure

on repairs and maintenance spend and confirmed this was correctly categorised as revenue. We have gained assurance over the completeness and accuracy of capital additions and transfers recognised in 2019/20.

20. For assets transferred to land and buildings, we have gained assurance that their carrying value is in line with the valuer's report and is materially correct. However we noted accounting inaccuracies in the treatment of this revaluation which were adjusted for during the audit.

21. We also noted that the valuation for these assets reflected the full VAT charge (recoverable and non-recoverable) whilst the SORP only permits the capitalisation of irrecoverable VAT. Management estimated the level of recoverable VAT included within the valuation to be £0.039million. We did not deem this to be material to our audit opinion, however management opted to adjust for this.

22. In accordance with ISA (UK) 500 ' Audit Evidence', we have considered the competence, capability and objectivity of the professional valuer and did not identify any items which gave us cause for concern over the suitability of the valuer. The property valuation report did not identify any material uncertainty arising from Covid-19. As this is outwith the norm that we have seen across the public sector this year, we actively sought confirmation from the valuer that no such uncertainty existed. DM Hall provided assurance that given the nature of the asset and the valuation method employed, no such material uncertainty existed. We are therefore satisfied that the value of land and buildings as at 31 July 2020 is free from material misstatement or uncertainty.

Covid-19

The current Covid-19 pandemic presents a number of unprecedented challenges to the operation, financial management and governance of an organisation. Systems and processes have been amended to support remote working, governance arrangements and decision making has moved to a virtual environment and many organisations are forecasting large operating deficits due to loss of income and additional cost pressures.

There is increasing uncertainty on how long these challenges will persist and as a result, the extent of the impact on the preparation and audit of the 2019/20 annual report and financial statements remains unknown. We will continue to monitor government and relevant announcements as the pertain to the audit of the College and adapt our approach as required.

Noted in the 2019/20 External Audit Plan

23. In response to this risk we identified potential areas where there was the risk of material misstatement to the financial statements and/or our audit opinion. These areas included the content of the annual report and accounts, access to audit evidence (as commented on below) and specific work on fixed asset valuation and going concern. We did not identify any indication of material uncertainty within the annual report and accounts.

Content of the annual report and accounts

24. In May 2020, HM Treasury issued an addendum to the Government Financial Reporting Manual (FReM) which covered the following:

    - The addendum permits, but does not require, bodies to omit or reduce the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication.
    - Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report.

25. The College took the decision to include the performance analysis section of the Performance report and make the full disclosures in the Accountability Report.

26. In addition, we confirmed that the College complied with all mandatory disclosure requirements outlined in the Scottish Funding Council's Accounts Direction for Scottish College's 2019-20.

Access to audit evidence

27. Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherently challenging nature of carrying out our audit remotely.

28. We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

29. Throughout our audit of the College, we have been provided with sufficient audit evidence to form our audit opinion. There were no issues noted with the reliability or appropriateness of evidence provided.

30. The unaudited annual report and accounts and supporting papers received were of a good standard. Our thanks go to staff at the College for their assistance with our work.

An overview of the scope of our audit

31. The scope of our audit was detailed in our External Audit Plan, which was considered by the Audit Committee in August 2020. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

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

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

Our application of materiality

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

35. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

36. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

37. Our initial assessment of materiality for the financial statements was £280,000. This equates to approximately 1.8% of the College's 2019/20 gross expenditure. We consider our updated assessment has remained appropriate throughout our audit.

	Materiality £000
Overall materiality: Our assessment is made with reference to the College's gross expenditure. Operating within budget is a key target for the College and one of the principal considerations for the users of the financial statements when assessing financial performance.	280
Performance materiality: Using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	210

38. We noted within our External Audit Plan that we would report on all audit differences in excess of 5% of the overall materiality figure, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identify when assessing the overall presentation of the financial statements.

Audit differences

39. We identified one material adjustment to correct the accounting treatment of the revaluation movement. Further detail has been included at Appendix 3.

40. In addition, we identified an audit difference with regards to the inclusion of recoverable VAT in the valuation of additions. We did not deem this to be material to our audit opinion, however management opted to adjust for this as part of the material difference.

41. We identified some disclosure and presentational adjustments during our audit. These have been reflected in the final set of financial statements.

Representations

42. We have requested that a signed representation letter be presented to us at the date of signing the annual report and accounts. This letter is to be signed by the Board of Management.

Other matters identified during our audit

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

Other information in the annual report and accounts

44. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's report thereon. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.

The performance report

45. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It comprises an overview of the organisation and a detailed summary of how the entity measures performance.

46. We have concluded that the performance report has been prepared in accordance with the directions from

the Scottish Funding Council and is consistent with the financial statements.

The accountability report

47. The accountability report is required in order to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report (including the governance statement), a remuneration and staff report, and a parliamentary accountability report.

48. Our audit opinion specifically refers to the governance statement and the audited part of the remuneration and staff report.

Governance statement

49. Based on the audit work carried out, we have concluded that the governance statement has been prepared in accordance with the SFC Accounts Direction and Government Financial Reporting Manual and is consistent with the financial statements. We have provided further detail on our work and findings within the Wider Scope section of our report (page 21).

Remuneration and staff report

50. We have concluded that the audited part of the remuneration and staff report has been prepared in accordance with the SFC Accounts Direction.

Regularity

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

52. In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Pension Liability

53. As at 31 July 2020, the net LGPS pension was £12.657million, an increase of £5.884million compared to the net pension liability as at 31 July 2019 (£6.773million).

54. Due to the significant movement in comparison with the prior year, we have conducted a more detailed analysis of the assumptions used in the actuarial report. We are satisfied that these are reasonable, and that the movement is in line with those across the sector, which are primarily as a result of changes in actuarial assumptions and related scheme and market conditions.

55. We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 'Audit Evidence'. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary or the completeness and accuracy of the actuarial report.

56. The net pension liability takes account of the McCloud judgement and the Goodwin tribunal.

57. The McCloud case relates to an employment tribunal ruling that transitional provisions impacting on public sector final salary schemes were unlawfully age discriminatory. This was upheld in the Courts in December 2018 although the Government at that stage sought leave to appeal this judgement. In June 2019, the Supreme Court rejected the Government's request for a further appeal.

58. The Goodwin tribunal relates to a recent employment tribunal that changes the

pension entitlement of male survivors in opposite sex marriages to take into account the female member's service from 6 April 1978. Previously, the male spouse survivor's entitlement was based on service accrued from 6 April 1988. The change is backdated to 5 December 2005. The change therefore affects the pension of male spouse survivors where their entitlement arose (i.e. where the female member died) on or after 5 December 2005.

59. Management instructed its actuaries to calculate the net pension liability taking these two cases into account and this has been reflected in the financial statements.

Systems of internal control

60. We have evaluated the College's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatement in the annual report and accounts. Our approach has included documenting key internal financial controls and performing walkthroughs to confirm they are operating as intended.

61. We did not identify any material weaknesses in the College's accounting and internal control systems.

Follow up of prior year recommendations

62. As part of our audit, we have followed up on the one outstanding audit recommendation from prior years. Detail on this recommendation is included in the action plan at Appendix 2. We have reported this action as still in progress.

Qualitative aspects of accounting practices and financial reporting

63. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual report and accounts. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed in the financial statements, and are satisfied with the appropriateness of the accounting policy used.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. Estimates have been made in relation to the valuation and depreciation of property, plant and equipment and pension provisions. Where available, the College has utilised the work of independent experts or industry practice to support the estimate applied. Pension estimates have been informed by advice from qualified, independent experts. We evaluated the competence, objectivity and capability of managements' experts in line with the requirements of ISA (UK) 500.
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2020/21. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the College will continue to operate for at least 12 months from the signing date and is in line with the context of Practice Note 10 for public sector bodies.
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual report and accounts.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these	From the testing performed, we identified no significant unusual transactions in the period.

Qualitative aspect considered	Audit conclusion
transactions are separately disclosed.	
Apparent misstatements in the annual report or material inconsistencies with the accounts.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant annual report and accounts disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual report and accounts disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit. We completed our audit work remotely and worked collaboratively with the Finance team to manage and minimise the impact of this.

Wider scope

Following consideration of the size, nature and risks of the College, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope has therefore been restricted to:

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

Wider scope conclusions

Governance statement

We are satisfied that the Governance Statement has been prepared in accordance with the SFC Accounts Direction and that the content is consistent with the financial statements.

Internal audit has expressed concerns within their Annual Report that there are weaknesses in the framework for risk management, governance and internal control. A 'Partial Assurance' opinion was provided on three audits in 2019/20 relating to staff development, petty cash and expenses, and curriculum planning. The College has concluded within the Governance Statement that there is an appropriate framework of internal controls in place, but that this is subject to the focussed improvements highlighted by internal audit.

We have not identified any significant weaknesses or governance issues in the College's accounting and internal control systems throughout the year or as a result of remote working during the Covid-19 pandemic.

Financial sustainability

The College has effective arrangements in place for undertaking short and medium term financial planning, although it continues to face significant challenges, operating within tight financial parameters. Effort and activity continues to reach a long term sustainable position. The Board approved the 2020/21 budget in July 2020 which forecasts an operating deficit of £0.614million and an underlying surplus of £0.048million once adjusted for non-cash and exceptional items

Staff costs continue to be a significant pressure area, although work is underway through the Transformation Plan to address this. The voluntary severance scheme approved in 2019/20 is expected to deliver recurring savings of £0.567million from 2020/21 onwards and management plan for a further reduction of 10 FTE through a second scheme in 2020/21. Budgeted staff costs for 2020/21 are 11% lower than actual costs recognised in 2019/20. Delivery of planned savings requires close monitoring to ensure these remain achievable and do not impact on the College's ability to deliver a high quality service.

The Transformation Plan has been reviewed in light of the Covid-19 pandemic. Whilst it was deemed that drivers for change and overall objectives remain valid, the impact of Covid-19 has highlighted the need to accelerate the pace of change in some areas. Plans have been rephased and the financial impact reflected in the 2020/21 budget and future forecasts.

Our approach to the wider scope audit

64. Our approach to the wider scope audit (as set out in our 2019/20 External Audit Plan) builds upon our understanding of the College which we developed from previous years, along with discussions with management and review of minutes and key strategy documents.

65. During our audit we also considered the following risk areas as they relate to the College:

- EU withdrawal
- Fraud and corruption in respect of the procurement function

66. Overall, we concluded that the College has appropriate arrangements in place in respect of these areas as noted below:

Impact of EU withdrawal	The College has been able to demonstrate consideration of the potential impact of EU withdrawal on staff, students, funding and legislation. The College has considered and reflected the risk it faces as a result of EU withdrawal within the strategic risk register in 2018/19 and has continued to monitor the situation to minimise the overall impact. In addition, the College has participated in a number of different forums with both the SFC and Colleges Scotland to ensure it remains informed about potential impacts to the sector as they develop.

Fraud and corruption in respect of the procurement function	The College undertakes a moderate volume and value of procurement activity, with the majority of their budget comprising staff and premise costs. Where procurement activity is completed, the College utilised the Scottish Government purchasing system (PECOS) where possible. This is in line with best practices and includes features aimed at countering fraud, such as enforced segregation of duties. The risk of fraud and corruption in respect of the College's procurement function is deemed to be low.

Governance statement

Our audit opinion considers whether the Governance Statement has been prepared in accordance with the Government Financial Reporting Manual and the SFC Accounts Direction and is consistent with the financial statements.

67. We are satisfied that the Governance Statement for the year to 31 July 2020 is consistent with the information gathered during the course of our audit work. We have confirmed that the disclosures made are in line with the Government Financial Reporting Manual and the SFC Accounts Direction.

68. The Board of Management has confirmed that the College has complied with all the principles of the 2016 Code of Good Governance for Scottish Colleges throughout the year ended 31 July 2020. We have not identified any issues from our audit work to contradict this.

69. Internal audit has expressed concerns within their Annual Report that there are weaknesses in the framework for risk management, governance, internal control and economy, efficiency and effectiveness, such that it could become inadequate or ineffective.

70. A 'Partial Assurance' opinion was provided on three audits included in the 2019/20 internal audit plan, relating to staff development, petty cash/expenses and curriculum planning. Internal audit highlight that the majority of this work was concluded prior to the disruption of Covid-19 and given the significant impact this has had on operation of the College and their risk profile; the annual opinion should be read in this context.

71. The Audit Committee has been monitoring progress in addressing the recommendations raised and management deem a number of the actions to be implemented or partially complete. Work is ongoing to address these recommendations.

72. Within the Governance Statement, the Board has concluded that the system of internal control provides partial assurance regarding the effective and efficient deployment of resources and that work is ongoing to address the focussed improvements identified. We have not identified any issues from our work to contradict this and have not identified any additional risks of material misstatement to the financial statements.

Impact of COVID-19

73. With national lockdown announced on 23 March 2020, all College activity moved to being delivered remotely and this has continued to some degree throughout the period.

74. Governance arrangements continued as close to normal, although with Board and Committee meetings held virtually. Additional meetings were held as required to support timely decision making.

75. The internal control system has continued to operate throughout the remote working periods of the year. Other than the switch from manually recording internal controls to electronic recording, there has been no significant changes in controls themselves overall.

76. We are satisfied that the College has appropriately reflected on the impact of Covid-19 on the governance structure and control environment within the Governance Statement.

Financial sustainability

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

Significant audit risk

77. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities.

Financial sustainability

As is the case across the sector, the financial sustainability of the College remains challenging. Work is ongoing to quantify the impact of the Covid-19 pandemic on 2019/20 year end projections and the development of a 2020/21 budget has been delayed as a result. The College continues to face cost pressures around cost inflation, national pay bargaining implications, general pay uplifts, and backlog maintenance. In addition, the sector recognises that the impact of Covid-19 on the College's service delivery will continue to impact its financial sustainability in the short- and medium-term; although the extent of this remains unknown.

As noted in the 2019/20 External Audit Plan

78. The College has prepared a three year medium-term financial forecast as part of the Financial Forecasting Return (FFR) process. The latest FFR - approved by the Board of Management in July 2020 - reported the forecasted year-end position for 2019/20, the budget for 2020/21, and forward forecasts for 2021/22 and 2022/21. Our work and conclusions on the budget and financial forecasts for 2020/21 onwards is set out below and notes the significant challenges the College continues to face.

2019/20 financial position

79. The College reported an operating deficit of £1.950million for the year ended 31 July 2020, equating to 14% of the College's total income. The net deficit is mostly due to a loss of commercial income as a result of the Covid-19 outbreak, a substantial increase in staff costs and additional unforeseen costs, such as system upgrades to support remote working and preparing the College campus for the new academic year.

80. Adjusting for non-cash transaction as per SFC directions - such as net depreciation charges (£0.524million) and the net charge arising from the pension valuation (£0.819million) - the College shows an "adjusted" operating deficit of £0.607million (surplus of £0.054million in 2018/19).

2020/21 budget

81. The Board approved the 2020/21 budget in July 2020. This forecasts an operating deficit of £0.614million, arising from budgeted income of £13.216million (4% lower than 2019/20 actual income) and total budgeted expenditure of £13.830million (7% lower than 2019/20 actual expenditure). Once adjusted for non-cash and exceptional items, the College has budgeted an underlying surplus of £0.048million.

82. The SFC published indicative funding allocations in April 2020 and final allocations in June 2020. We can confirm that the budget has been prepared based on the updated allocations.

Staff costs

83. Staff costs continue to be a significant challenge for the College and the FFR has been prepared based on reduction in staffing numbers over the three year period.

84. The College has applied a 2% uplift to reflect the cost of living pay award increase for lecturing and support staff in line with the Colleges Scotland Employers' Association pay award assumptions. This reflects additional costs of £0.185million for 2020/21.

85. The College has previously recognised that current staffing costs are not sustainable and are actively looking to reduce staffing costs through the Transformation Plan.

86. A voluntary severance scheme was agreed in 2019/20 which has resulted in a reduction of 14.52 FTE from August 2020. We confirmed that the scheme was approved and administered in line with SFC guidance. The 2020/21 budget and subsequent forecasts have been prepared on the basis that this will achieve recurring savings of £0.567million.

87. A further voluntary severance scheme has been included in the 2020/21 budget with the aim of delivering an additional 10 FTE reductions during the year.

88. In addition, a Lean review of processes and procedures has been planned for 2020/21 to identify further opportunities to reduce staff costs. An estimated saving of £0.150million has been included in projections.

89. Total budgeted staff costs for 2020/21 (£10.059million) are 11% lower than action costs in 2019/20. The College recognises that delivery of these planned savings requires close monitoring to ensure the initiatives remain achievable and do not impact on the College's ability to deliver curriculum activity or support students and staff in future years.

Impact of Covid-19

90. The exact impact of Covid-19 on current and future operation of the College remains unknown. The College has recognised a key risk regarding student numbers for 2020/21; numbers will not be confirmed until November 2020. Plans are in place for a blended curriculum delivery model to help mitigate the impact of remote working, however student retention is recognised to be further risk. Measures are in place to manage this and the College will continue to monitor student numbers closely.

91. Additional costs will be incurred in 2020/21 to ensure the campus adheres to social distancing requirements and other Covid-19 related measures. The College is complying with current Scottish Government guidance but

recognises the risk that this may change over the course of 2020/21. If so, budget will need to be reallocated from other projects to cover this.

92. The College recognises that the impact of Covid-19 on recruitment, commercial income and proposed developments will require to be closely monitored through 2020/21.

Capital expenditure

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

94. The College has included capital budget of £0.200million in 2020/21 to cover the ongoing investment in ICT to ensure it is up to date and provides student with access to the latest technologies.

Medium term financial forecasts

95. The College has prepared a three year financial forecast as part of the SFC's FFR process. The SFC has developed a set of common, indicative assumptions for College's to use in the aim of achieving consistency and comparability across the sector.

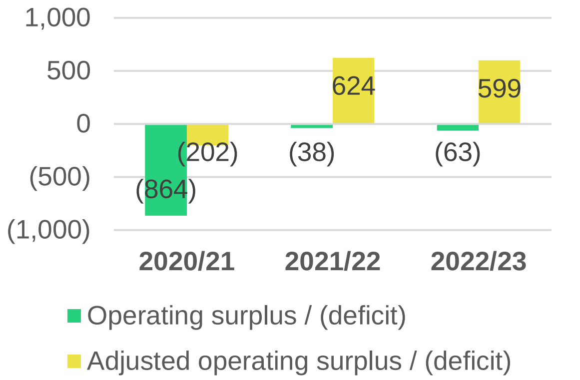
96. Assumptions include:

- Credit targets will remain stable until 2022-23, when they will decrease by 2.5%
- Flexible Workforce Development funding will continue at 2019/20 levels
- All student support funding requirements will be fully met
- SFC capital maintenance funding will be based on the allocation for 2019/20
- Budgets should reflect the estimated income from applications to the Coronavirus Job Retention Scheme for the period up to the end of October 2020
- Cost of living pay award should be included based on 2% increase
- Additional funding to cover the forecast increase in STSS employer contributions will continue to the end of 2022/23
- Funding will be provided for voluntary severance costs

97. We confirmed that the College has applied these assumptions when preparing the FFR.

98. The FFR shows an underlying deficit in 2020/21 and an underlying surplus in 2021/22 and 2022/23. No general contingency has been included in the forecasts and scenario planning is ongoing to monitor the uncertainty over funding and income streams, and the progression of the Transformation Plan.

Exhibit 2: Financial Forecast (£'000)



Source: 2019/20 Financial Forecast Return

Transformation Plan

99. The Board approved the consultation draft of the Transformation Plan in March 2020. The consultation period commenced but was suspended as a result of the pandemic. This recommenced in May and closed in June 2020, with the outcome reported to the Board in July 2020.

100. The Transformation Plan was reviewed in light of the Covid-19 pandemic. Whilst it was deemed that the drivers for change and overall objectives identified in the Transformation Plan remain valid, the impact of Covid-19 highlighted the need to accelerate the pace of change in the following areas;

- Enhancing the student experience
- Strengthening leadership capacity
- Growing and diversifying our income base
- Investing in digital capability
- Investing in staff capability
- Matching staff costs with projected activity and benchmarked sector standards

101. Action to date has been focused around reducing staff costs. This has primarily been through voluntary severance, but management have undertaken other measures to review and reduce costs such as reviewing vacancies as they have arisen and reviewing fixed term and temporary contracts in advance of renewal dates.

102. Phase 2 of the Plan, due to commence in 2020/21, includes planned developments in Marketing and Rebranding, Estates Development, Lean Review and Digital Transformation. These areas are considered vital in delivering the College's new Strategic Plan - Ambition 2025 - and are expected to realise a mix of additional income and a reduction in costs.

103. The maintenance and upgrade of estates and IT facilities continues to be an area of risk. The long term future of the College requires continued investment in these areas to allow the College to adapt to changing needs and to ensure that learners continue to have access to modern facilities and equipment. Planned maintenance spend of £0.445million has been included in the 2020/21 budget as part of a phased programme.

104. We will continue to monitor the delivery of the Transformation Plan and long-term planning forecast as part of the 2020/21 audit to ensure appropriate and timely action is taken.

Appendices

Appendix 1: Respective responsibilities of the College and the Auditor

Responsibility for the preparation of the annual report and accounts

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

In preparing the annual report and financial statements, the Board of Management is required to:

- apply on a consistent basis the accounting policies and standards;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have not been followed where the effect of the departure is material;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the College will continue to operate; and
- ensure the regularity of expenditure and income.

The Board of Management is also responsible for:

- keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 1992, together with the Financial Memorandum issued thereunder, and are presented in accordance with the Accounts Direction issued by the SFC.; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual report and accounts and give an opinion on whether:

- they give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the SFC of the state of the College's affairs as at 31 July 2020 and of its surplus for the year then ended;
- they have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education (2019);
- they have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of the Charities Accounts (Scotland) Regulations 2006;
- The College has not disclosed in the financial statements any identified material uncertainties that may cast doubt about it's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue;
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers.

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

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records;
- we have not received all the information and explanations we require for our audit; or
- the governance statement does not comply with Scottish Funding Council requirements.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions; financial sustainability, financial management, governance and transparency, and value for money.

We have concluded that the full application is not appropriate due to the size of the organisation. As part of our annual audit we consider and report against:

- appropriateness of the disclosures in the governance statement; and
- financial sustainability of the body and the services that it delivers over the medium to longer term.

Independence

International Standard on Auditing (UK) 260 "*Communication with those charged with governance*" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

Non-audit services

Dumfries and Galloway College has purchased non-audit services from our business in 2019/20 with an expected fee of £4,000. We provide advisory services to the College on tax (VAT and PSA) matters. The work will be undertaken by a separate team from the audit team and the audit team will have no involvement in this work.

Confirmation of independence

We confirm that we have complied with the FRC's Ethical Standards. In our professional judgement, the audit process is independent, and our objectivity has not been compromised in any way. In particular there are no, and have been no, relationships between Azets, the Board of Management or senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Action Plan

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

Action plan grading structure

The recommendations have been rated to help the College assess the significance of the issues and prioritise the actions required.

The rating structure is summarised as follows:

Grade	Explanation
Grade 5	Very high risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.

Follow up of prior year recommendations

One recommendation was reported as outstanding in our 2018/19 annual audit report. We note below that this is still in progress.

UWS contract

Initial rating	Issue & recommendation	Management comments
Grade 2	**Issue** The College does not have a formal arrangement with University of West of Scotland in respect of charging for teaching hours delivered. This leads to a significant movement in the amount of income disclosed as a consequence of over-accrual in the prior year. **Risk** There is a risk that the College cannot accurately budget income due as a result of a lack of formal contract with UWS resulting in failure to achieve a sustainable financial position. **Recommendation** The College has invoiced (as opposed to accruing) for 2017/18 teaching hours. However, going forward, the billing arrangements should be agreed in sufficient detail that the College is able to estimate the amount of income it will receive.	We will liaise with the University of West of Scotland to establish a formal agreement for the teaching contract **Responsible officer:** Head of Finance **Implementation date:** 31.12.18 ***2018/19 management response*** A draft Service Level Agreement is currently being discussed, which will aim to be consistent with other SLA's which the College now has in place with other partners. **Responsible officer:** Head of Finance **Implementation date:** 31.01.20

Current status	Update

In progress	Discussion is still ongoing with UWS to agree the SLA.	A revised draft Service Level Agreement has been issued to UWS which sets out arrangements for billing teaching hours, notice for any changes and other service delivery responsibilities. This is still in the process of being agreed. **Responsible officer:** Head of Finance **Implementation date:** 31.12.20

Appendix 3: Audit differences

We identified the following adjustment to the financial statements during our audit. We have discussed this with management and agreed that it will be reflected in the financial statements on the basis of materiality.

	Statement of Comprehensive Income		**Balance Sheet**	
	DR £'000	**CR £'000**	**DR £'000**	**CR £'000**
Accumulated depreciation			762	
Revaluation reserve			39	
Land and buildings – cost				801
Being the deduction of recoverable VAT from the valuation of additions (£39k) and the correction to the original revaluation journal (reversing out accumulated depreciation in full)				
Net impact on (income) / expenditure (£'000)	**nil**			