Dundee and Angus College

2019/20 Annual Audit Report

AUDIT SCOTLAND

To the Board of Management and the Auditor General for Scotland

16 December 2020

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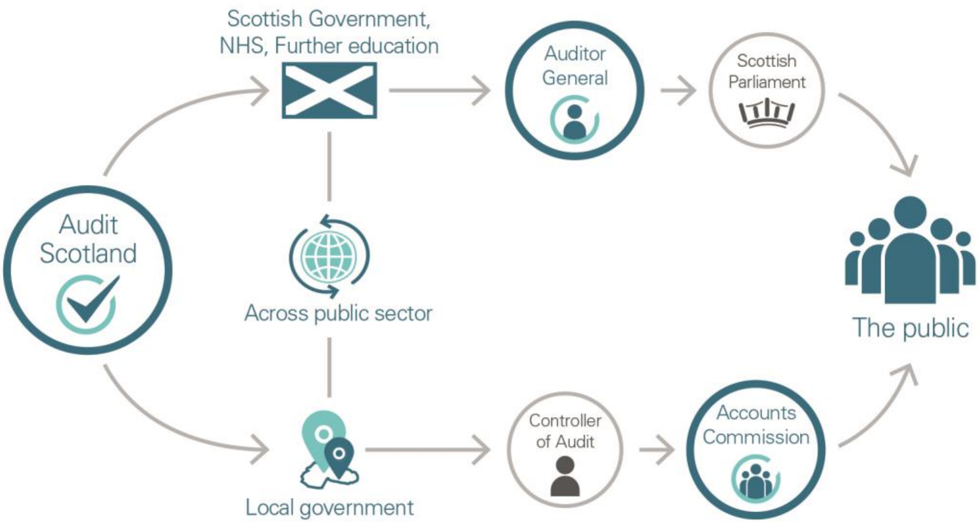
- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- 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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2019/20 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 2020 and of the deficit for the year then ended.

2 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.

3 Despite the impact of Covid-19, the audited annual report and financial statements were signed off by the 31 December deadline.

Financial management

4 The College has well developed budget monitoring and reporting arrangements. It managed its budget effectively during 2019/20 and adapted well to the difficult circumstances faced during the year. This enabled it to report an underlying operating surplus of £1.014 million for the year to 31 July 2020.

5 The College had to implement a number of changes to its systems of internal control during 2019/20 due to the impact of the cyber-attack and Covid-19. However, high level systems of internal control continued to operate effectively during the year.

6 The College has adequate arrangements for the prevention and detection of fraud and other regularities. These include arrangements to prevent fraud and corruption related to procurement activity.

Financial sustainability

7 Additional income from the Scottish Funding Council to support economic recovery has enabled the College to budget to achieve a cash-backed surplus of £0.020 million for 2020/21.

8 Covid-19 will continue to have a significant impact on the College’s financial health going forward. The College should produce a revised five-year financial strategy once there is sufficient certainty around the longer-term financial impact of Covid-19.

9 The College should review its five-year estate strategy to ensure that the existing plans represent the best approach to supporting an excellent, future-focussed curriculum, in a post-Covid world. This should include consideration of the next steps for the Kingsway Tower redevelopment and new build STEM centre.

10 The College will play an important role in the delivery of the Tay Cities Region Deal projects by contributing to the objectives of the Skills Investment Plan to boost fair work, inclusive growth and productivity across the region.

Governance and transparency

11 **Effective governance and decision-making arrangements were in place during 2019/20 and the College took effective action to adjust its governance arrangements to respond to the challenges presented by Covid-19.**

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

13 **The College fell victim to a major cyber-attack in January 2020. Since this incident, good progress has been made in implementing the recommendations of the independent JISC Computer Security Incident Response Team review.**

14 **The external evaluation of the Board of Management undertaken during 2020 confirmed that it is operating effectively and has a robust self-evaluation process in place.**

Value for money

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

16 **A new five-year strategic plan, 2025 Strategy More Successful Students, was approved by the Board in December 2019. The College also created Project 2020 to support a coordinated and inclusive approach to reopening the College's campuses and returning to face-to-face learning and services in September 2020.**

17 **The College reported on a range of positive outcomes from its Good to Great strategy. It also continues to report strong performance against the National Measurement Framework, including student satisfaction results above the national average. As in prior years, the College exceeded its student activity credits target for 2019/20.**

Introduction

1. This report summarises the findings arising from our 2019/20 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 2019/20 audit was set out in our Annual Audit Plan presented to the 12 May 2020 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, and
- 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

Impact of Covid-19

4. The College has had to respond to the disruption caused by Covid-19. This impacted on the final five months of the financial year and will continue to have a significant impact during 2020/21. We reviewed our assessment of audit risks and the planned audit work in October 2020 and concluded that the risks identified and reported in the annual audit plan remained relevant.

Ethical considerations

5. 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 2019/20 audit fee of £24,370, 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

6. 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.

7. 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.

8. 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.

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

10. 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.

11. 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.

12. 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

Extension of audit appointment

13. Auditors appointed under statute by the Auditor General for Scotland are engaged for a five-year period. The current audit engagement was due to end after the conclusion of the 2020/21 audit. Normally at the end of each five-year period a new auditor is appointed, either Audit Scotland or a private sector accountancy firm.

14. Covid-19 will have audit implications beyond the immediate challenge of this year's final accounts. As some of this year's audits will be reported later than normal, planning for and potentially reporting of, next year's annual audit work will also be affected. As such, the Auditor General for Scotland approved the extension of current audit appointments for a year to include the 2021/22 audit year. This decision reflects the need for stability and continuity given the longer-term impact of Covid-19 on audited bodies and the difficulty of running the necessary procurement exercise during the pandemic.

Acknowledgement

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

Part 1

Audit of 2019/20 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 2020 and of the deficit for the year then ended.

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.

Despite the impact of Covid-19, the audited annual report and financial statements were signed off by the 31 December deadline.

Our audit opinions on the annual report and financial statements are unmodified

16. The annual report and accounts for the year ended 31 July 2020 were approved by the Board of Management on 15 December 2020. We reported, within our independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework,
- expenditure and income were incurred or applies in accordance with applicable enactments and guidance issued by Scottish Ministers, and
- 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 the relevant legislation and directions made by the Scottish Funding Council.

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.

Despite the impact of Covid-19, the audited annual report and financial statements were signed off by the 31 December deadline

17. The proposed schedule for completing the audit of the College's annual report and financial statements was adversely affected by the impact of Covid-19. We received the unaudited financial statements on 1 October. The Performance Report and Governance Statement were subsequently presented for audit on 20 October. This was later than the planned date per the original audit timetable, 28 September. The physical limitations on access to records and systems meant that our staff had to conduct the audit remotely and College finance staff also faced similar constraints.

18. The unaudited annual report and financial statements and the working papers provided for audit were of a reasonable standard and finance staff provided good support to the audit team which helped ensure the final accounts process ran smoothly. Despite the impact of Covid-19, the audited annual report and financial statements were signed off by the 31 December deadline.

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 is undertaken during the planning phase of the audit and was based on the gross expenditure reported in the 2018/19 audited annual report and financial statements. These levels were reported in our Annual Audit Plan presented to the Audit and Risk Committee on 12 May 2020.

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 2020. Our final materiality levels are summarised at exhibit 2.

Exhibit 2
Materiality levels

Materiality level	Amount
Overall materiality – This is the calculated figure used in assessing the potential effect of errors in the financial statements. It was set at 1.5% of gross expenditure for the year ended 31 July 2020.	£0.730 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	£0.475 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

Our audit identified and addressed the risks of material misstatement

22. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified some key audit risks which involved the highest level of judgement and potential impact on the financial statements. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and indicated how the efforts of the audit team would be directed. We set out in our annual audit plan the audit work we proposed to undertake to secure appropriate levels of assurance.

23. We have no issues to report from our work on the risks of material misstatement highlighted in our 2019/20 Annual Audit Plan. Appendix 2 explains how we addressed the key audit risks identified at the planning stage, in arriving at our opinion on the annual report and financial statements.

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

24. International Standard on Auditing (ISA) 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 including accounting policies, accounting estimates and financial statements disclosures.

25. The significant findings are summarised at exhibit 3. Where a finding has resulted in a recommendation to management, a cross reference to the action plan at appendix 1 has been included.

26. Our audit also identified some presentational and disclosure issues which were discussed with management. These were all adjusted and reflected in the audited annual report and financial statements and none were significant enough to require to be separately reported under ISA 260.

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

Issue	Resolution
1. Post balance sheet event In September 2020 an issue was identified as part of the Kingsway campus re-development works. Further details of this can be found in paragraphs 109-116. As a result of these issues the Digital and Learner Resources (Library) annex requires demolition along with the Lecture Theatre roof. The College's professional valuer, Graham and Sibbald, has confirmed that the total value of the impairment is £0.815 million.	Management has adjusted for this in the audited financial statements. This resulted in the College's Property, Plant and Equipment balance at 31 July 2020 decreasing by £0.815 million. The College has made appropriate disclosure of the issue in the annual report and financial statements.
2. Approval and evidencing of exit package We identified that one exit package had a payback period exceeding 1 year. Per the College's guidance, in these circumstances additional approval from the Scottish Funding Council (SFC) is required. At the time of our audit, this had not been requested by the College. In addition to this, the SFC guidance also states that all severance decisions should be fully documented and a clear audit trail supporting these decisions retained. For example, a business case that includes justification and details of the full expected costs. As a result of the cyber-attack, documented evidence in respect of decision making on this package was not available for review by audit.	The College has received retrospective approval from the SFC for this exit package. Recommendation 1 (Appendix 1 - Action Plan)
3. Valuation of Fairlie House During the year the College identified that it had ownership of an unoccupied outreach facility in Kirriemuir, Fairlie House. This was subject to a separate revaluation on a market value basis as at 31 July 2020.	The audited financial statements include the valuation of Fairlie House. This resulted in the College's Property, Plant and Equipment balance at 31 July 2020 increasing by £0.060 million. The valuation is not material to the financial statements. As such, we do not consider that the "*material valuation uncertainty"* requires disclosure

Management advised that this revaluation would not complete in time to be included in the unaudited financial statements. The property was valued at £0.060 million by J&E Shepherd. In the valuation of Fairlie House, the valuer has declared a "*material valuation uncertainty".* This is due to market uncertainties caused by Covid-19. Royal Institute of Chartered Surveyors (RICS) guidance is clear that an inclusion of a material valuation uncertainty means that less certainty can be attached to a valuation than would normally be the case. However, this does not mean that the valuation cannot be relied upon or that there is a misstatement. The valuation completed by Graham & Sibbald for all of the College's other land and buildings did not include a material valuation uncertainty.	in the College's audited annual report and financial statements.
4. Grant income In accordance with the accrual model permitted under the Financial Reporting Standard (FRS) 102, the College recognises government grants as income in the same period as the related costs for which the grant is expected to compensate. In the unaudited financial statements, the College erroneously recognised £0.040 million of grant income when the related costs had not been incurred by the year-end. As a consequence, income was overstated by £0.040 million.	Management has adjusted for this in the audited financial statements. This resulted in the College's grant income for the year ended 31 July 2020 reducing by £0.040 million.
5. Annual leave accrual The accrual was calculated correctly. However, an error in processing this figure resulted in the unaudited financial statements being understated by £0.100 million.	Management has adjusted for this in the audited financial statements. This resulted in the College's net current liabilities at 31 July 2020 increasing by £0.100 million.
6. Fixed asset register - Fully depreciated assets Our review of the asset register identified that there were 153 assets with a nil carrying value. These had a total cost of £29.774 million and had been fully depreciated down to zero by 31 July 2020. Assets no longer in use should be removed from the asset register to ensure that the cost and accumulated depreciation balances for Property, Plant and Equipment in the financial statements accurately reflect the operational assets of the organisation.	Management should undertake a regular review of the asset register to identify fully depreciated assets. Appropriate adjustments should be made determined by whether these assets are continuing in use. Recommendation 2 (Appendix 1 - Action Plan)

Source: Audit Scotland

Identified adjustments of £1.015 million were made to the financial statements, these were above our performance materiality and as such we revised our audit approach

27. It is our responsibility to request that all misstatements above our reporting threshold (£0.035 million) are corrected. The final decision on this lies with those charged with governance considering advice from management and materiality.

28. We identified two misstatements in the unaudited financial statements (items 4 and 5 in exhibit 3) with a gross value of £0.140 million. In addition to this, there was a post balance sheet adjustment required for the asset impairment of £0.815 million (item 1 in exhibit 3) and a late property valuation amounting to £0.060 million (item 3 in exhibit 3). Management has processed adjustments in the audited report and financial statements in respect of all these issues.

29. These adjustments resulted in the deficit for the year ended 31 July 2020 in the statement of comprehensive income increasing by £0.895 million, with a corresponding decrease in the total reserves held by the College at 31 July 2020.

The College's application of the going concern basis of accounting remains appropriate

30. ISA 700 requires auditors to report in accordance with ISA 570 in respect of going concern. ISA 570 requires auditors to conclude:

- on the appropriateness of the body's use of the going concern basis of accounting, and
- whether a material uncertainty exists about the body's ability to continue to adopt the going concern basis of accounting.

31. The Financial Reporting Council's *Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom* indicates that a going concern basis of accounting is appropriate in a public sector organisation unless there is a known intention to abolish, transfer or privatise activities. Even then, if the transfer of operations is within the public sector, a going concern basis of accounting may still be appropriate. The Financial Reporting Manual (FReM) also interprets going concern for the public sector context in a similar way.

32. Dundee and Angus College prepared its 2019/20 financial statements on the going concern basis but due to the major impact of the Covid-19 pandemic on the operation of the College, we sought assurances from management of the arrangements in place to ensure that the organisation could continue to operate as a going concern. In evaluating management's assessment of the College's ability to continue as a going concern we have taken into consideration the following:

- As at 31 July 2020 the College's Statement of Financial Position discloses £3.712 million held as cash and cash equivalents,
- As part of its sector funding announcement, the SFC has allocated the College funding for 2020/21,
- The College has set a balanced budget for 2020/21, with a cash-backed surplus of £0.020 million projected together with a forecast year-end cash position of circa £3 million, and
- There has been no communication from the SFC that the College's functions could be ceased or be privatised.

33. We recognise that the College, like many public sector bodies, is facing financial sustainability issues, described further in Part 3 of this report. However, based on the arrangements in place and the assurances provided we do not consider there to be a material uncertainty regarding the ability of Dundee and Angus College to continue to operate for the next 12 months. We therefore believe that the use of the going concern basis of accounting remains appropriate.

The College's five-yearly valuation was completed during 2019/20 and resulted in a revaluation gain of £3.638 million

34. Non-current assets are those assets which are used over a number of years for the delivery of services. The recognition and measurement of non-current assets in the college's Statement of Financial Position provides stakeholders with a valuation of the assets held by the college. Making depreciation charges to the Statement of Comprehensive Income reflects a charge to services for the benefits derived from using those assets during the year.

35. Accounting for non-current assets is governed by Financial Reporting Standard (FRS) 102, with specific requirements set out in the *Statement of Recommended Practice: Accounting for Further and Higher Education (SORP)*.

36. The fair value of non-current assets, specifically land and buildings, is usually determined from market-based evidence by appraisal undertaken by a professionally qualified valuer. The SORP requires such revaluations to be sufficiently regular so that the carrying value of an asset at 31 July each year is not materially different from its fair value.

37. The College operates a quinquennial valuation programme with a full valuation conducted every five years, and an interim valuation conducted in the third year following the full valuation. As the last full valuation was conducted in 2014/15, with an interim valuation in 2017/18, the College required to have a full valuation completed during 2019/20.

38. The 2019/20 valuation was completed by Graham and Sibbald, a Royal Institute of Chartered Surveyor (RICS) qualified valuer. As part of our financial statements audit we reviewed the work of the Valuer, in accordance with the requirements of ISA 620 – Using the Work of An Expert, to confirm that they had appropriate qualifications, knowledge and experience to conduct such a valuation programme and were free to complete their work without undue influence from the audited body. Our review did not identify any issues that would impact upon the reliability of the information provided by the Valuer.

39. The valuation programme completed by Graham and Sibbald during the year is reflected in the 2019/20 audited annual report and financial statements. This resulted in the fair value of the assets at 31 July 2020 increasing by £3.638 million from the interim valuation in 2017/18.

40. We have concluded that the College's land and buildings were valued on an appropriate basis using information provided by professional valuers.

Market instability towards the end of the financial year resulted in the College's funded pension liability increasing to £22.5 million at 31 July 2020

41. 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 required accounting practices.

42. Dundee and Angus College participates in two pension schemes for its staff: The Local Government Pension Scheme (LGPS) and the Scottish Teachers' Superannuation Scheme (STSS). Notes 16 and 17 to the financial statements provided the disclosures for these schemes in accordance with applicable guidance.

43. As required by Financial Reporting Standard 102 the College has recognised pension liabilities in the Statement of Financial Position in respect of its membership of Tayside Pension Fund which is a defined benefit LGPS.

44. 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.

45. We have reviewed the actuarial assumptions used for the valuation and are satisfied that they appear reasonable and in line with assumptions used by other public sector actuaries over the same period.

46. The funded pension liability in the Statement of Financial Position 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 Statement of Financial Position represents the additional future pension liability arising from staff who have taken early retirement.

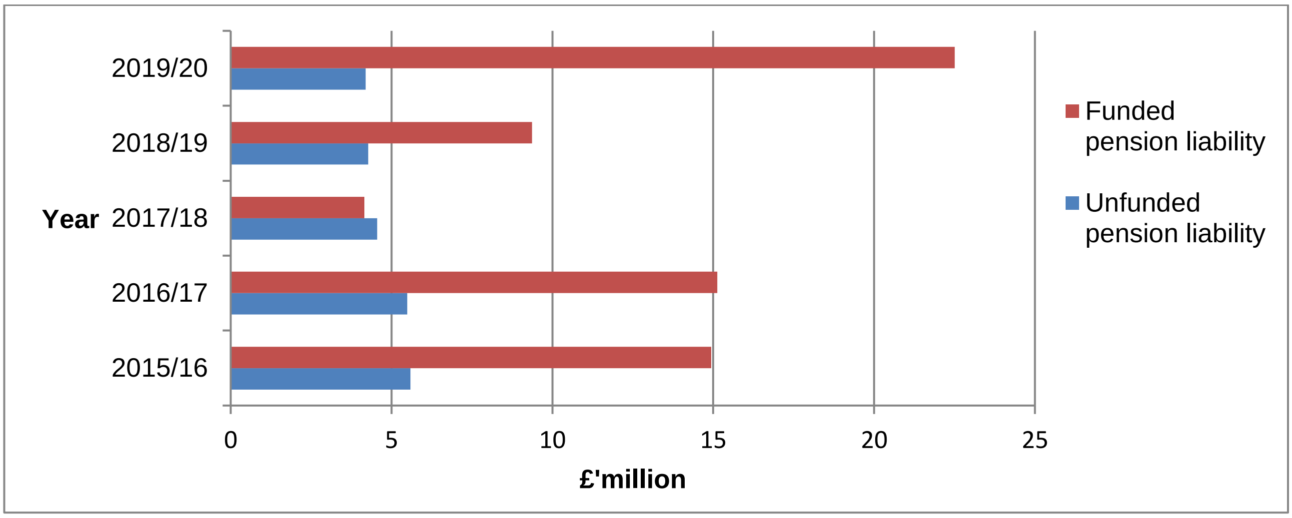
47. As at 31 July 2020, the college's funded pension liability stood at £22.509 million and the unfunded liability stood at £4.195 million. These balances compare to a funded pension liability of £9.370 million and an unfunded pension liability of £4.271 million at 31 July 2019. This is also reflected in the Consolidated Statement of Financial Position.

48. FRS102 requires liabilities to be valued using a discount rate assumption set with reference to yields on "high quality" corporate bonds. For this purpose, a high-quality corporate bond is taken to mean a bond that has been rated at the level of AA or equivalent. There was market instability towards the end of the College's financial year due to fears over the second wave of Covid-19 infections and the political uncertainty caused by the upcoming elections in the United States. The increase in the funded pension liability is mainly attributable to the increase in scheme obligations, primarily arising from the decrease in this discount rate.

49. 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.

Exhibit 4

Movement in funded and unfunded pension liability 2015/16-2019/20



Source: Dundee and Angus College Annual Report and Financial Statements 2015/16 to 2019/20

The College's 2019/20 Performance Report provides a good picture of its performance and operational activity for the year although there is still scope for further improvement

50. 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 16 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.

51. We concluded that the College's 2019/20 Performance Report is consistent with our knowledge of the organisation and provides a good picture of its performance and operational activity for the year. However, as reported in prior years, we feel further improvements could still be made to include details of actual performance levels against targets, including trend analysis over time, and to make greater use of infographics.

The annual governance statement includes appropriate disclosure of the cyber-attack, and the impact of Covid-19 on governance arrangements since March 2020

52. As detailed at paragraphs 137-143, the College was the victim of a major cyber-attack at the start of 2020. In its annual governance statement, the College has made appropriate disclosure of the control weaknesses that enabled it to fall victim to such an attack, and the actions taken to address these and reduce the risk of a similar incident occurring in the future.

53. Public bodies have had to quickly change how they deliver services in response to Covid-19 outbreak and the related restrictions introduced. The widespread use of virtual working and the rapid introduction of new programmes and services to support businesses and individuals, create a range of potential financial risks and challenges to internal controls. In its annual governance statement, the College has made appropriate disclosure of the impact that Covid-19 has had on its governance arrangements in 2019/20 and the continued risk this represents to it for 2020/21.

The audited part of the remuneration and staff report was consistent with the financial statements and has been prepared in accordance with applicable guidance

54. The College is required to include a remuneration and staff report within its annual report and financial statements that includes details of:

- the College's remuneration policy,
- details of the remuneration of senior officers, including pension entitlements, for the financial year (and prior year comparator); and accrued pension benefits figures at 31 July of that year,
- the number and cost of exit packages approved during the financial year, and
- a median pay disclosure and a range of other information on staff costs, numbers and related activity, including time spent on trade union activity.

55. Other than point 2 raised in exhibit 3, we have no issues to report in relation to the information included within the remuneration and staff report in the College's 2019/20 annual report and financial statements.

Our prior year recommendations have been addressed

56. As noted in appendix 1 the College implemented both of our prior year audit recommendations during 2019/20.

Part 2

Financial management

Main judgements

The College has well developed budget monitoring and reporting arrangements. It managed its budget effectively during 2019/20 and adapted well to the difficult circumstances faced during the year. This enabled it to report an underlying operating surplus of £1.014 million for the year to 31 July 2020.

The College had to implement a number of changes to its systems of internal control during 2019/20 due to the impact of the cyber-attack and Covid-19. However, high level systems of internal control continued to operate effectively during the year.

The College has adequate arrangements for the prevention and detection of fraud and other regularities. These include arrangements to prevent fraud and corruption related to procurement activity.

The College has well developed budget monitoring and reporting arrangements

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

57. 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.

58. 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.

59. 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.

60. 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 2019/20 and adapted well to the difficult circumstances faced during the year

61. The College Board of Management approved its 2019/20 budget in June 2019. This projected a cash-backed surplus for the year of £0.637 million. The budget was prepared within the context that some key elements were uncertain, due to issues such as the ongoing national pay bargaining negotiations and the College's academic restructure being in progress at the time. Once there was more certainty around these elements the College's Finance and Property Committee approved a revised budget in November 2019. This projected a cash-backed surplus for the year of £0.604 million

62. The Covid-19 pandemic had a significant impact on the College's financial management arrangements in 2019/20. Following the closure of the College to all staff on 21 March 2020, the College took urgent steps to mitigate the immediate financial risks. This included the use of the Coronavirus Job Retention Scheme (CJRS) with a claim of £0.702 million made to HMRC in 2019/20 in respect of around 280 employees furloughed between March and July 2020.

63. The College's income streams have been adversely affected by the impact of the pandemic. Catering income and income from commercial and leisure activities, such as the Gardyne Gym and Swim, was significantly lower than initially budgeted for the final months of the financial year. However, the use of the CJRS and reduction of costs associated with these activities helped mitigate the impact of this loss of income on the College's overall financial performance.

64. At the Finance and Property Committee in September 2020, members received a report entitled *"2019/20 draft outturn".* This indicated a likely cash-backed surplus for the year of £1.265 million. This was is in line with the projected budget outturn reported to the committee during the course of 2019/20, and the final underlying operating position of £1.014 million reported in the annual report and financial statements.

65. The achievement of the above budget cash-backed surplus during the year was attributable to a range of factors with the most significant being the provision of an additional £0.747 million of funding from the SFC to fund the increase in employer contributions to the Scottish Teachers' Superannuation Scheme.

66. We are satisfied the College managed its budget effectively during 2019/20 and adapted well to the difficult circumstances faced during the year.

The College reported an operating deficit of £3.776 million and an underlying operating surplus of £1.014 million for the year to 31 July 2020

67. The College reported an operating deficit for the year to 31 July 2020 of £3.776 million (£2.344 million in 2018/19) in the Statement of Comprehensive Income (SOCI).

68. 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 position for the year by adjusting for these items and any one-off exceptional items impacting on the annual position reported in the SOCI.

69. The underlying operating position of the College reported within the Performance Report shows an underlying operating surplus of £1.014 million for the year to 31 July 2020 (£2.249 million in 2018/19).

The College had to implement a number of changes to its systems of internal control during 2019/20 due to the impact of the cyber-attack and Covid-19

70. As part of our interim audit work, we reviewed the high-level controls in the 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.

71. During the course of 2019/20, the College had to implement a number of changes to its systems of internal control due to the impact of the cyber-attack, paragraphs 137-143, and Covid-19.

72. A number of changes to internal controls were implemented in the wake of the cyber-attack in January 2020 due to core ICT systems being unavailable. The most significant of these changes was the adoption of a temporary manual ordering and approval system to ensure delegated authority limits were maintained while the College's P2P ordering system was rebuilt.

73. On 21 March 2020 College staff moved to home working in response to the Covid-19 pandemic. This required some changes to the internal controls set out in the College's financial procedures. For example, the approval process for reconciliations and journals required approval by signature but alternative controls such as email approvals have been put in place, and guidance on the new arrangements has been provided to all staff. The College should keep this under review to ensure internal financial controls remain appropriate and effective going forward.

High level systems of internal control operated effectively during 2019/20

74. Taking account of the revised control arrangements introduced in response to the cyber-attack and Covid-19, we carried out some additional testing to gain the assurance we required for the audit of the College's 2019/20 accounts. Our testing identified control weaknesses in relation to the approval of debt write-offs and completion of leavers forms during the year. However, we did not identify any significant control weaknesses that could impact to the extent that they would result in a material misstatement in the financial statements.

Internal audit reported that the College had adequate risk management, control and governance arrangements in place during 2019/20

75. The College's internal audit function has been carried out by Henderson Loggie since 2013/14 and during 2019/20 they were re-appointed as the College's internal auditors for 2020/21 to 2022/23. 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.

76. 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 2019/20 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).

77. During 2019/20 we placed reliance on aspects of internal audit's work as part of our wider dimension work. This included the reviews of the College's procurement practices (paragraph 84), health, safety and wellbeing arrangements in relation to Covid-19 (paragraph 133), and the IT network arrangements and IT strategy in the wake of the cyber-attack (paragraph 142).

78. We also considered internal audit's Annual Report as part of our review of the Governance Statement included within the Accountability Report in the 2019/20 report and financial statements. This provided Internal audit's opinion that the College had adequate and effective arrangements for risk management, control and governance in place during 2019/20.

The College has adequate arrangements for the prevention and detection of fraud and other regularities. These include arrangements to prevent fraud and corruption related to procurement activity.

79. Our consideration of financial management includes evaluating the arrangements in place for preventing and detecting fraud, error and corruption. The board is responsible for establishing arrangements for the prevention and detection of fraud, error and corruption and ensuring that its affairs are managed in accordance with proper standards of conduct.

80. We have reviewed the arrangements in place to maintain standards of conduct including the College's code of conduct for members of the Board of Management, public interest disclosure policy (this includes details of the College's whistleblowing arrangements), and the recently revised gift and hospitality policy (May 2020) and fraud, bribery and corruption policy (September 2020).

81. The College also participates in the National Fraud Initiative, a counter-fraud exercise coordinated by Audit Scotland that 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.

82. Instances of fraud and corruption can be particularly prevalent in procurement functions with illicit rebates, kickbacks and false invoicing potential risks across the public sector.

83. The Board has a range of activities in place designed to prevent and detect fraud and corruption in its procurement function. These include:

- Financial regulations with delegated budget authority thresholds which apply to all non-pay expenditure.
- A procurement policy updated annually focussing on the sustained integrity of the procurement process
- Participation in the Scottish Government's procurement and commercial improvement programme (PCIP). The latest biennial PCIP assessment was undertaken in November 2019 with the College achieving a score that placed it in the silver band (61-75 per cent). This is an improvement on the January 2018 assessment which placed the College in the bronze band (51-60 per cent).

84. In 2019/20 internal audit undertook a review of the College's procurement arrangements focussing on the system of internal controls in place for the ordering of goods and services and the procedures in place to support the delivery of best value purchasing. This review provided a good level of assurance concluding that the College's procurement policy, strategy and procedures are in line with the Procurement Reform (Scotland) Act 2014 and the Procurement (Scotland) Regulations 2016.

85. We have concluded that adequate arrangements are in place for the prevention and detection of fraud and other irregularities. These include arrangements to prevent fraud and corruption related to procurement activity. We are not aware of any specific issues that we need to bring to your attention.

Part 3

Financial sustainability

Main judgement(s)

Additional income from the Scottish Funding Council to support economic recovery has enabled the College to budget to achieve a cash-backed surplus of £0.020 million for 2020/21.

Covid-19 will continue to have a significant impact on the College's financial health going forward. The College should produce a revised five-year financial strategy once there is sufficient certainty around the longer-term financial impact of Covid-19.

The College should review its five-year estate strategy to ensure that the existing plans represent the best approach to supporting an excellent, future-focussed curriculum, in a post-Covid world. This should include consideration of the next steps for the Kingsway Tower redevelopment and new build STEM centre.

The College will play an important role in the delivery of the Tay Cities Region Deal projects by contributing to the objectives of the Skills Investment Plan to boost fair work, inclusive growth and productivity across the region.

Covid-19 will continue to have a significant impact on the College's financial health going forward

86. The Covid-19 pandemic is placing additional pressure on a college sector that already faced significant financial pressures and uncertainties. The external auditors of the Scottish Funding Council (SFC) highlighted in their 2019/20 Annual Audit Report that the SFC estimated, in April 2020, that due to the impact of Covid-19 the 2019/20 adjusted operating positions for colleges would move from a near break-even position to a deficit of £25 million for the year ended 31 July 2020.

87. Covid-19 will have an even greater impact on the College's financial performance during 2020/21. There remains a great deal of uncertainty what level of additional financial support will be available going forward but the whole college sector is likely to be operating within significant financial constraints for the foreseeable future.

Additional income from the SFC to support economic recovery has enabled the College to budget to achieve a cash-backed surplus of £0.020 million for 2020/21

88. The College did not approve a budget in June 2020 as it was not possible at that point to present a balanced budget to the Board due to the uncertainty caused by Covid-19. Instead, the Finance and Property Committee agreed that the June meeting of the Board would be presented with an update on the potential financial impact of Covid-19 with a view to the budget being presented when there was sufficient clarity to reliably project income and expenditure for 2020/21.

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.

89. The paper presented to the June board meeting included pre and post pandemic budget figures for 2020/21 to highlight the potential impact that Covid-19 could have on the financial position of the College. The post Covid-19 budget showed a projected 2020/21 cash deficit for the year of £1.56 million, compared to the pre Covid-19 break-even projection. It also highlighted that a deficit of this size would fully exhaust the College's cash reserves by the end of the financial year.

90. The draft 2020/21 budget was presented to the Finance and Property Committee meeting in September 2020. This projected a cash-backed surplus of £0.020 million for the year to 31 July 2021, based on total income of £44.202 million and total expenditure of £44.182 million (including £32.674 million for total pay costs). This represented a significantly improved position from the financial projections reported to the Board in June.

91. The improved budget projections were mainly attributable to additional income from the SFC to support economic recovery, and other sources of income including amounts to be reclaimed through the Coronavirus Job Retention Scheme (CJRS) from July and the related Job Retention Bonus payments (i.e. the College will be entitled to a payment of £1,000 per employee for each member of staff who has been furloughed and is still employed at 31 January 2021). The budget also reflected the additional costs and income associated with the Kingsway Tower development which is being partly funded by the Dundee and Angus Foundation.

92. While the College were able to set a balanced budget for 2020/21, it should be noted that the projected cash-backed surplus of £0.020 million for the year is a significant reduction on the underlying operating surpluses achieved in prior years of £2.249 million for 2018/19, and £1.014 million for 2019/20. This reflects the additional costs to the College related to the Covid-19 pandemic and the continuing impact on income streams, for example the College is projecting that catering and other income will be £1.173 million during 2020/21 compared to £2.108 million in 2019/20.

93. The budget paper was supported by extensive narrative on key assumptions and included a risk assessment assessing the likelihood and impact of any potential adverse and / or favourable movements. The College should maintain its strong budgetary review processes, paragraphs 57-60, to ensure it can respond effectively to the challenging forecasting demands that will continue during 2020/21.

The College has secured a repayment holiday for the Gardyne Campus long-term loan for 2020/21 but this debt will still require to be repaid in full by June 2027

94. The College makes annual payments in August each year towards the repayment of the Gardyne Campus long-term loan. For 2020/21, the College has secured a loan repayment holiday at no additional cost with no loan repayment made in August 2020. This has helped the College set a balanced budget for 2020/21, paragraphs 88-93. However, the terms of the current loan agreement will require the College to make an additional payment in 2026/27 to ensure the full debt is repaid by 30 June 2027. The College should ensure that future financial plans reflect this obligation.

The College should produce a revised five-year financial strategy once there is sufficient certainty around the longer-term financial impact of Covid-19

95. 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.

96. As discussed above, the College faces a loss of income from sources including tuition fees, catering and other commercial activities, as well as additional costs to support the move to online teaching and learning, due to Covid-19. A number of the assumptions that underpinned the five-year financial strategy will therefore be challenging to deliver in the current economic climate. These include the anticipated 2 per cent increase in the volume of commercial income and an increase of 1.5 per cent in the price levels for all non-core income.

97. It is recommended that the College produce a revised five-year financial strategy once there is sufficient certainty around the longer-term financial impact of Covid-19.

Recommendation 3 (Appendix 1 - Action Plan)

The College's three-year Financial Forecast Return shows the cash position being maintained at around £1 million over the three years to 31 July 2023, but this is predicated upon the delivery of savings from staff reductions over the same period

98. In previous years, the SFC has required colleges to annually submit five-year financial forecast returns (FFRs). The returns require standard information for all colleges and contribute to the SFC financial health monitoring framework. The 2019/20 FFR followed a similar format to prior years with a range of common planning assumptions to be used, however the SFC reduced the forecast period from five to three years. Reducing the forecast period to 2022/23 aligned the college and university reporting timescales.

99. At the start of June 2020, the College were advised of the format and the assumptions to be used for the 2019/20 FFR and the deadline for submission to the SFC of the 30 June 2020. Colleges are required to present a balanced budget for 2020/21 and / or a deliverable plan to reach a balanced budget over the forecast period. The College prepared its three-year financial forecasts through to 2023 and submitted these to the SFC by the June deadline as required.

100. The FFR submitted by the College to the SFC in June showed underlying operating deficits for future years that would result in a negative cash position by 31 July 2022. Following this submission, the SFC asked the College to resubmit its FFR showing a balanced position by 2022/23. To achieve this the College adjusted the FFR to reflect the potential costs and savings of a targeted reduction in staffing, in the region of 30 full-time equivalent staff, over the next three years. The revised FFR was submitted to the SFC on 16 July 2020.

101. The revised FFR shows a projected underlying deficit for 2020/21 with underlying surpluses for both 2021/22 and 2022/23. The underlying operating and closing cash positions for 2020/21-2022/23 are shown in Exhibit 5.

Exhibit 5
Projected underlying operating and closing cash balance positions

Description	2020/21 £' million	2021/22 £' million	2022/23 £' million
Underlying operating surplus / (deficit)	(0.807)	0.718	0.381
Closing cash position	1.006	1.120	1.097

Source: Dundee and Angus College 2019/20 Financial Forecast Return

102. The FFR was presented to the September meeting of the Board. The accompanying paper explained the format and content of the return, including the assumptions used and the proposed actions to further mitigate the impact of the serious financial challenges facing the College. The paper also provided additional context for Board members on the national and local impact of Covid-19 on future financial projections.

The College should review its five-year estate strategy to ensure that the existing plans represent the best approach to supporting an excellent, future-focussed curriculum, in a post-Covid world

103. 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 the financial health of colleges. The report highlighted that colleges are working in an increasingly tight financial environment with Scottish Government capital funding falling short of what is needed to meet the estimated costs of maintaining the college estate.

104. The Gardiner & Theobald (GT) *College Estate Condition Survey*, issued in December 2017, estimated that the total value of Dundee and Angus College's backlog maintenance was £19.718 million. In 2019/20, the College received total capital funding of £1.646 million (including £1.109 million for high priority backlog maintenance) to address these needs.

105. For 2020/21 the College's capital funding has increased to a total of £3.142 million. This includes additional grants awarded by the SFC in response to the impact of Covid-19 with the College awarded £0.514 million to support economic recovery and £0.152 million ringfenced to provide learners with equipment in support of remote learning.

106. The College has in place a five-year estate strategy covering the period 2019/20 to 2023/24. The strategy sets out the College's estate ambitions which includes the redevelopment of the Kingsway campus and creation of a new STEM centre. The funding to deliver the strategy is estimated in the region of £90-£100 million. The College's progress with the delivery of these projects is discussed in more detail at paragraphs 109-120.

107. Despite the increase in capital funding, the Scottish Government's current levels of capital funding remains insufficient to fully meet the College's estate ambitions. There is a risk that this lack of funding may impact upon the College's ability to address the condition of its estate. However, the College has engaged proactively with the SFC to discuss alternative funding options and, despite significant challenges, clear progress has been made during the year in the delivery of the estate strategy.

108. Due to the impact of Covid-19, there is an overarching risk for the whole college sector that future plans and investment in estate improvements may be affected by the increase in remote learning. The College should review its five-year estate strategy in this context to ensure that the existing plans represent the best approach to supporting an excellent, future-focussed curriculum, in a post-Covid world. This should include consideration of the next steps for the Kingsway Tower redevelopment, paragraphs 109-117, and new build STEM centre, paragraphs 118-120.

Recommendation 4 (Appendix 1 - Action Plan)

Phase 1 of the Kingsway Tower redevelopment commenced in June 2020 but issues have been encountered that could affect the delivery and costs of the overall project

109. The College's estate strategy notes that the Kingsway campus is no longer a fit for purpose learning environment establishing that the learning spaces require significant redevelopment and investment in order to meet the needs of the curriculum. Redevelopment of the Kingsway Tower is the first of the major works planned for the campus. Following approval by the Finance and Property Committee, the redevelopment plans were approved by the Board in May 2020.

110. This development is being progressed over two phases – phase 1 in 2020 and phase 2 in 2021. The total cost of the project is projected to be £4.500 million and is being funded through both the SFC capital backlog maintenance grant and a funding bid approved by the Dundee and Angus Foundation, Exhibit 6.

Exhibit 6
Funding for Kingsway Tower redevelopment

Source of funding	Phase 1 projects £' million	Phase 2 projects £' million	Total £' million
SFC capital backlog maintenance grant	1.203	0.548	**1.751**
Dundee and Angus Foundation	2.175	0.574	**2.749**
Total	**3.378**	**1.122**	**4.500**

Source: Dundee and Angus College 2019/20 annual report and financial statements

111. The work associated with phase 1 of the redevelopment commenced in June 2020. Refurbishments to the reception area, frontline services and social space were all completed in advance of the delayed College restart date in September.

112. The creation of a Hair, Beauty and Complimentary Therapies facility in the vacated Digital and Learner Resources (Library) annex is also due to be completed as part of phase 1. However, an issue has arisen that has impacted on this work and could affect the delivery and costs of the overall project.

113. The issues identified was the discovery that the existing concrete slab roof was showing signs of defection which was outwith acceptable tolerance levels. Subsequent extensive investigation identified that the construction of the existing concrete slab did not comply with the code of practice required at the time of the original build, back in the 1960s. As there are no suitable, and cost effective, options to make the building structurally safe, the existing annex will require to be demolished.

114. Following the identification of the defects in the Digital and Learner Resources (Library) annex, similar issues were also identified with the roof of the Lecture Theatre. As a result, this building will also now require to be demolished.

115. In both cases, professional fees such as architects, mechanical and electrical services, and structural and civil engineer services, as well as preliminary costs, had already been incurred to progress the initial development based on refurbishment of the existing buildings. Therefore, these sunk costs will still require to be funded as part of the overall project.

116. The College is currently exploring the consequences of these issues for the overall project with support from the SFC and Dundee and Angus Foundation. We will continue to monitor and report on the progress with the Kingsway Tower redevelopment as part of our 2020/21 audit.

The College should ensure that its capital budget from 2020/21 will be sufficient to cover the additional annual costs associated with the capital works at the Kingsway Campus

117. Colleges are provided with a limited capital budget each year to fund the annual costs associated with existing assets, i.e. depreciation charges and any impairment costs. Given the extent of the capital works planned for the Kingsway Campus during 2020/21, the College should discuss with the SFC its plans to finance future depreciation costs. This may include the availability of additional capital budget in future years, or the option to vire funds from the College's annual revenue budget to its capital budget, to cover these costs.

Recommendation 5 (Appendix 1 - Action Plan)

There is a risk that the College's plans for a new build STEM centre on the Kingsway Campus, funded through a Mutual Investment Model, are impacted by the current pressure on public finances

118. As part of the overall Estates Strategy for the Kingsway Campus the SFC funded the College to develop an Outline Business Case for a new build Science, Technology, Engineering and Maths (STEM) centre on the Kingsway Campus, funded by the Scottish Government through a Mutual Investment Model (MIM).

119. Work on these proposals initially progressed well during the early part of 2019/20 but was impacted by the cyber-attack and Covid-19, both of which required senior staff to reprioritise their workload.

120. The original estimated timeframe for the development of the MIM project could have seen construction start at the College as soon as 2022. However, there is a risk these plans are impacted by the current pressure on public finances. We will continue to monitor and report on progress with the STEM centre project as part of our 2020/21 audit.

Dundee and Angus College has been asked to be the lead partner in the Skills Academy at the Michelin Scotland Innovation Parc. This will provide additional opportunities for the College to deliver teaching and training for local businesses.

121. In November 2018 Michelin announced its intention to close its plant at Baldovie in Dundee, with the loss of all 845 jobs. At that point Michelin had no plans for further activity at the site beyond that date.

122. Since the original announcement Dundee City Council and Scottish Enterprise have worked closely with Michelin to create an ambitious joint venture called the Michelin Scotland Innovation Parc. This will be based on the same site and aims to create a world class innovation centre in Dundee to drive growth and diversity in the Scottish economy while addressing the global climate emergency.

123. Covering a 32-hectare site in Dundee it is intended to drive global research while influencing and supporting breakthroughs in sustainable mobility and low carbon energy. It will provide industrial spaces and facilities to a wide variety of organisations, research institutions and industry leaders and attempt to address the global challenges facing the community, country and planet.

124. The Parc should create sustainable jobs across a variety of skillsets providing local and national opportunities both now and in the future. It will also incorporate a Skills Academy and Engineering School which will facilitate a range of training opportunities in partnership with Dundee and Angus College, Abertay University and the University of Dundee. Dundee and Angus College has been asked to be the lead partner in the Skills Academy. This will provide additional opportunities for the College to deliver teaching and training for local businesses.

The College will play an important role in the delivery of the Tay Cities Region Deal projects by contributing to the objectives of the Skills Investment Plan to boost fair work, inclusive growth and productivity across the region

125. In January 2020 the Auditor General for Scotland and Accounts Commission published a joint report titled *Scotland's City Region and Growth Deals*. This looked at the eight Scottish City Region deals, both those signed and proposed, including the Tay Cities Deal which includes projects across the Dundee City, Angus, Perth and Kinross, and Fife council areas.

126. The Tay Cities Deal was developed after the Scottish Government's Enterprise and Skills Review was published in 2017. This allowed the deal to build on good practice from other city region deals. The £700 million deal is to be funded by both the Scottish and UK Governments with the partner councils, other public sector bodies, and private sources contributing additional funding.

127. A key element of the Tay Cities Deal is the Skills Investment Plan which focuses on the skills needs of people and businesses across the region. This was developed by Skills Development Scotland (SDS) alongside a range of partners including local authorities, colleges and universities. The plan informs the delivery of a range of projects, which are supported by up to £20 million of Scottish Government funding towards skills and employability. These projects are intended to create up to 6,000 job opportunities across the tourism, food and drink, creative industries, eco innovation, digital, decommissioning, engineering, biomedical and health and care sectors.

128. The Skills Investment Plan focuses on ensuring more people have the skills to access high-quality jobs in the key and growth sectors that drive the region's economy and features a broad range of measures including:

- enhancing the of careers information, advice and guidance available to young people and the existing workforce to promote careers in key sectors across the region,
- mounting an effective regional effort around Foundation Apprenticeships to ensure year-on-year growth across each part of the region, with opportunities in all schools and with employers involved at every stage,
- creating an integrated regional approach to reducing gender inequality in specific occupations, targeting young people and people at all stages of their working lives,
- creating a regional workforce development fund, open to employers in the key and growth sectors, and
- enhancing mentoring and e-learning support for owner-managers in micro-businesses and third sector organisations, focusing on key and growth sectors and their supply chains.

129. Dundee and Angus College will play an important role in the Tay Cities Region Deal by contributing to the objectives of the Skills Investment Plan to boost fair work, inclusive growth and productivity across the region.

Good Practice – The College is offering 340 Foundation Apprenticeship opportunities for the 2020/21 academic year

The College leads on the development of the school / college curriculum and infrastructure to deliver on the Developing the Young Workforce strategy for the region and has continued to grow the senior phase and Foundation Apprenticeship activity with local schools. Foundation Apprenticeship opportunities offered by the College have increased year-on-year from 40 in 2018/19, to 260 in 2019/20, and 340 for the 2020/21 academic year. This growth reflects the close and productive collaboration between the College and Dundee City and Angus councils. It also demonstrates the College's ability to deliver increased opportunities and outcomes for young people in the region.

Part 4

Governance and transparency

Main judgements

Effective governance and decision-making arrangements were in place during 2019/20 and the College took effective action to adjust its governance arrangements to respond to the challenges presented by Covid-19.

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

The College fell victim to a major cyber-attack in January 2020. Since this incident, good progress has been made in implementing the recommendations of the independent JISC Computer Security Incident Response Team review.

The external evaluation of the Board of Management undertaken during 2020 confirmed that it is operating effectively and has a robust self-evaluation process in place.

Effective governance and decision-making arrangements were in place during 2019/20

130. Our review of the governance and transparency arrangements of an organisation includes consideration of:

- Board and committee structure and conduct.
- Overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption. This includes action in response to the National Fraud Initiative.
- Openness of board and committees.
- Reporting of performance and whether this is fair, balanced and understandable.

131. We have concluded that our previous year's conclusion is still relevant, i.e. that "the College has effective governance and decision-making arrangements", as there has been no significant change to these arrangements during 2019/20, except for the specific comments below on the response to the Covid-19 outbreak since March 2020.

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 took effective action to adjust its governance arrangements to respond to the challenges presented by Covid-19

132. The impact of Covid-19 since March 2020 has been set out in the Governance Statement in the College's annual report and accounts. We note the following adjustments were made to the College's governance arrangements in response to the challenges faced due to Covid-19:

- All recent board and committee meetings have been conducted virtually through Microsoft Teams. There has been a re-focus of work priorities on business continuity and finances with three additional meetings of the Chairs Committee (comprising the Chair and Vice-Chair of the Board and Chairs of the other four committees) taking place

- An additional temporary Covid-19 Strategic Risk Register has been developed to record the additional risks, and the mitigating actions and monitoring activity associated with the impact of the pandemic on the College's operations. This was approved at the May 2020 Audit and Risk Committee and has been included within the risk reporting arrangements of each individual board committee.

133. We have concluded that the College took effective action to adjust its governance arrangements to respond to the challenges associated with Covid-19.

The College conducts its business in an open and transparent manner

134. 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.

135. As reported in 2018/19, 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.

136. We remain of the view that the College conducts its business in an open and transparent manner.

The College fell victim to a major cyber-attack in January 2020. Since this incident, good progress has been made in implementing the recommendations of the independent JISC Computer Security Incident Response Team review.

137. As part of our work in 2018/19, we reported that the College was making good progress in implementing the key actions set out in the Scottish Government's *Cyber resilience: public sector action plan*.

138. The College achieved Cyber Essentials Basic Accreditation in 2018 and we are pleased to note the College achieved the Plus Accreditation in December 2019. The Plus certification requires independent verification of cyber security carried out independently by a certification body. This is in addition to the self-assessment exercise required for basic accreditation.

139. Cyber-attacks are becoming more sophisticated and prevalent in the public sector and the College fell victim to a major cyber-attack in January 2020. This was a ransomware attack which encrypted desktops, share drives and backups Personal data was not impacted; however, a number of IT systems were compromised, and data held in share drives, including student coursework, was lost. The College was also closed to all students for three days as it took steps to respond to the incident.

140. The College immediately enacted its business continuity and major incident arrangements to respond to the attack. It also received support from a range of public sector bodies to assist with the process of cleansing all the computers affected by the attack.

141. At the Board meeting in March 2020, a confidential report was presented to members detailing the events that led to the cyber incident. The report was supported by evidence and guidance from the Joint Academic Support Network (JANET) and the JISC Computer Security Incident Response Team (CSIRT). This report made a total of eight recommendations specific to the cyber-attack with a further four recommendations made to the Board following the initial report.

142. In addition to this report, Internal Audit also carried out a review of the College's IT network arrangements and IT strategy. This provided a satisfactory level of assurance concluding that: *"…despite the recent cyber-attack, we have concluded that, overall, the College ICT team has a high awareness of the risks of information / cyber security, and that the control environment demonstrates good practice with the expected cyber security controls in place, for an organisation of this size, found to be in place in most areas".*

143. Since the cyber-attack, the College has made good progress in implementing the recommendations. This includes the creation of a Cyber Incident Response Plan and the development of cyber security training for staff and students. While cyber security risks cannot be fully eliminated, staff awareness is a key defence against these attacks. We will continue to monitor the College's progress in improving its cyber resilience arrangements as part of our work in 2020/21.

The external evaluation of the Board of Management undertaken during 2020 confirmed that it is operating effectively and has a robust self-evaluation process in place

144. 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. The Board are also expected to facilitate an external evaluation of its effectiveness at least every three years.

145. An external evaluation was undertaken during 2020 and reported to the December meeting of the Board of Management. The evaluation involved the:

- review of the self-evaluation completed by the Board of Management,
- review of Board and Committee papers and minutes for academic session 2019-2020,
- observing four committee meetings during September 2020,
- observing the Board of Management meeting on 29 September 2020,
- one-to-one interviews with nine Board Members including the Chair, the Principal, staff, student and other members, and
- an interview with the Board Secretary.

146. The review concluded that:

- Dundee and Angus College has a skilled and experienced Board which works well with its senior leadership team and its student body. The Board, led by a very experienced and enthusiastic Chair, works collectively in formulating the College's strategic direction and in ensuring its effective delivery for its students and wider partners. There is evidence of strong processes and effective governance arrangements that adhere fully to the Code of Good Governance for Scotland's Colleges.

- The evaluation was undertaken during the Covid-19 pandemic which had, and continues to have, a significant impact on the way the College delivers its services. The Board's strong governance arrangements supports the senior leadership team in managing these challenges and maintaining a continuity of service to its users.

- The Board has a robust self-evaluation process in respect of its overall effectiveness which identifies actions through which the Board can continuously develop.

A number of changes in the membership of the Board of Management are anticipated during 2020/21

147. Under the terms of the Post-16 Education (Scotland) Act 2013, and the ministerial guidance on the recruitment of board members, the Board of Management must make appropriate arrangements for the recruitment of members of the Board. To operate within the terms of the legislation the Board of Management must include a minimum of 15 members and a maximum of 18 members (up to 12 of whom are classified as "ordinary members" recruited under the board arrangements). The College Board cannot operate legally with fewer than 15 members.

148. The Board commenced 2019/20 with the maximum 18 members, including 12 ordinary members. During the year one ordinary member resigned and a further ordinary member signalled their intention to step down at the end of June 2020. The Board approved that an existing co-opted member would be appointed as a full member and recruitment would be undertaken to appoint another new member. However, due to Covid-19 the recruitment process has been delayed. As a result, the member who intended to step down at the end of June has agreed to continue on the Board until the end of 2020, or the conclusion of the recruitment process.

149. The current appointments of a further five ordinary members are due to end during 2020/21 (two on 30 April 2021 and three on 31 May 2021). The Board of Management will need to put in place arrangements to either re-appoint these members or recruit new members to replace them.

150. Management should ensure that a comprehensive induction programme, and additional support, is provided for all new members to ensure that the Board of Management continues to operate effectively going forward.

The College is participating in a University of Stirling Economic and Social Research Council funded research project looking at how governing boards realise the strategic aims of their organisation

151. During 2019 and 2020, Dundee and Angus College was selected as one of a number of colleges participating in a University of Stirling Economic and Social Research Council funded research project titled: *"Processes and practices of governing in further education colleges in the UK: How do governing boards realise the strategic aims of the organisation?"*

152. The main fieldwork for the study involved the observation and videoing of meetings of college's Boards of Management held between January and December 2019. This work was completed as planned, with additional follow up work identified to investigate the approach of Boards in determining strategy, and how Boards are operating on a remote / online basis.

Part 5

Value for money

Main judgements

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

A new five-year strategic plan, 2025 Strategy More Successful Students, was approved by the Board in December 2019. The College also created Project 2020 to support a coordinated and inclusive approach to reopening the College's campuses and returning to face-to-face learning and services in September 2020.

The College reported on a range of positive outcomes from its Good to Great strategy. It also continues to report strong performance against the National Measurement Framework, including student satisfaction results above the national average. As in prior years, the College exceeded its student activity credits target for 2019/20.

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.

153. The Financial Memorandum between the Scottish Funding Council and fundable bodies in the college sector requires the College to:

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

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

155. One way the College seeks to ensure value for money is through good procurement practice. This is achieved by optimising the use of national, sectoral, local or regional collaborative-based contracts and frameworks to deliver savings. The most recent figures published showed that over half of College procurement spend in 2018/19 went through collaborative agreements.

156. 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 2019/20 and their Annual Report for 2019/20 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 2019/20 and in each of the previous years since they were first appointed by the College in 2013/14.

157. Our review of expenditure during the audit did not highlight any issues with the regularity of the College's expenditure, or any instances of business decisions being taken that did not appear to reflect value for money.

The College reported on a range of positive outcomes from its Good to Great strategy

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

159. The College's Good to Great Strategy was a two-year transformation project that concluded in early 2020. Its aim was to ensure that: "From 2020 onwards, Dundee & Angus College will be the outstanding model of how regional colleges in Scotland operate and how they impact on their local economy".

160. The final Good to Great progress report taken to the December 2019 Board of Management Committee stated that the project has created a can-do attitude amongst staff across the College, encouraged creative thinking and innovative approaches to working practices. The report also highlighted the following key outcomes which have been delivered as a result of the project:

- Delivery of financial savings of £1.51 million and a 10 per cent reduction in expenditure on wider administration costs.
- An improvement in learner retention from 84.6 per cent in June 2017 to 87 per cent in December 2017.
- An increase in the full-time recruitment of students from 5,225 in June 2017 to 5,557 in December 2019.
- The creation of help points situated in each of the three college campuses.
- The modernisation of 90 per cent of the College's course portfolio

161. An independent evaluation of the Good to Great project will be undertaken and reported to the Board of Management in 2021. We will consider the results of this evaluation as part of our 2020/21 audit.

The College has approved a new five-year strategic plan, 2025 Strategy More Successful Students

162. A new five-year strategic plan, *2025 Strategy – More Successful Students*, was approved by the Board of Management in December 2019.The strategy is designed to build upon rather than replace the Good to Great transformation plan.

163. The strategy set out the College's vision to: "to create more successful students through effective partnerships that change lives and create thriving communities". A range of high-level metrics have been created which are designed to form the framework for assessing progress against the overall vision of the plan. Each metric falls under one of three strategic pledges:

- Effective Partnerships: to establish and enhance deeper, more meaningful partnerships both internally and externally to drive sustainability and ensure the best possible outcomes for students, employers and the wider region
- Future Focussed: to deliver curriculum and services in new and innovative ways that drive success and are engaging, flexible, streamlined and designed in partnership with learners, staff, partners and wider stakeholders
- Thriving Communities: to foster trusted, supportive, inclusive and resilient communities that puts partnerships, engagement and the health, wellbeing and success of students, staff, stakeholders and communities at the core of how the College operates.

164. Each of these pledges are aligned to the Colleges' core values, Exhibit 7.

Good Practice – The College has embarked on a project to reduce barriers, improve skills and facilitate access to training and qualifications

The College has secured funding through the Scottish Government's Child Poverty Fund to help increase engagement with the most vulnerable members of society. This initiative aims to break the long-term cycle disadvantaged young people can face by providing intensive support to reduce barriers, improve skills and facilitate access to training and qualifications.

Source: Dundee and Angus College website

Exhibit 7
Strategy 2015 – More Successful Students pledges

Source: Future Strategy report to Board of Management (December 2019)

The College created Project 2020 to support a coordinated and inclusive approach to reopening the College's campuses and returning to face-to-face learning and services in September 2020

165. Since March 2020, the College's immediate operational priorities have focussed on Covid-19 business continuity and recovery. This included the creation of 'Project 2020' which pulled together a wide range of activities and plans to make the infrastructure, educational and operational changes necessary to support the safe and effective reopening of the College's campuses and the return to face-to-face learning and services.

166. Project 2020 included the following five workstreams set up to support and inform the work needed to reopen the College safely and effectively:

- **Estates and Infrastructure:** Led by the Head of Estates and focussed on making the health and safety changes needed on the College's campuses to support social distancing, hygiene and safe working. This included changes needed to support increased ICT access and usage.
- **Delivery of Learning and Teaching:** Led by the Directors of Curriculum and Attainment to support the changes to curriculum planning and delivery.
- **Student Engagement & Service Delivery:** Led by the Head of Administrative Operations to support the changes to support services and the induction and engagement of students.
- **Leadership, Communication and Ways of Working:** led by the Head of People and Organisational Development and focussed on supporting and developing changes in the way in which the College works and delivers learning and other services within the 'new normal. This includes planning and delivering CPD activities and oversight of key staff communications on outcomes / plans from all workstreams.
- **Finance and Governance:** Led by the Head of Finance to support ongoing financial security and planning for additional costs and requirements to deliver on workstream outcomes and changes to the curriculum, delivery and services.

167. Each workstream included a union representative and the involvement of the Student Association, particularly within the Delivery of Learning and Teaching and Student Engagement workstreams, was also a key aspect of the College's joined up approach.

168. The College reopened to students on 21 September 2020, but Project 2020 will continue to run throughout the remainder of the current calendar year, and longer if needed. This will support and inform the steps required in response to Scottish Government guidance and restrictions.

Good Practice – The College has responded well to the increased health, safety and wellbeing challenges presented by Covid-19

An Internal Audit report into Health, Safety and Wellbeing focussed on the work undertaken to allow the College to continue to operate during the Covid-19 pandemic. It also reviewed the preparations made for the reopening of the College campuses from August 2020. This provided a good level of assurance, identifying many strengths in the College's response including its enhanced support for vulnerable students, contingency planning arrangements and remote working capacity. Internal Audit also found that the College's arrangements reflected best practice and guidance issued by the Scottish Government, World Health Organisation, and Health and Safety Executive (HSE).

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

169. 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.

170. 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.

171. 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 continues to report strong performance against the National Measurement Framework, including student satisfaction results above the national average

172. As part of our audit we reviewed the College's performance against the National Measurement Framework and the standard metrics reported to the Board. This showed that:

- **76.5 per cent of students successfully completed their courses in 2019/20**
  This showed an increase on the completion rate reported for 2018/19, although it was slighter lower than the completion rates reported for 2016/17 and 2017/18.

- **96.1 per cent of students were satisfied with their overall college experience**
  This was based on the 2018/19 Student Satisfaction and Engagement Survey (SSES) survey and compares favourably with the national college average of 93.0 per cent for Further Education students and 86.8 per cent for Higher Education students. This continues the trend of the College achieving above average satisfaction rates in the annual SSES survey.

- **18.2 per cent of credits were delivered to students from the 10 per cent most deprived post code areas during 2018/19**
  This has increased year-on-year since 2015/16 when the comparative figure was 15.9 per cent. The College has also committed to further increasing performance in this area as part of its 2019/20 Outcome Agreement.

173. The College's funding is closely linked to student success, retainment and recruitment rates. Student recruitment has been impacted by Covid-19 with course applications and interviews completed fully online. While college applications were down, full time recruitment has remained consistent with the prior year. Maintaining student recruitment, retention and attainment will be important if the College is to meet its 2020/21 credit target.

As in prior years, the College exceeded its student activity credits target for 2019/20

174. One of the priority measures contained within the National Measurement Framework is the student activity credits target. The SFC set a credits target for each college region every year and where these targets are not achieved the SFC can decide to recover funding.

175. The College has a strong track record of meeting and exceeding its credits targets, Exhibit 8. During 2019/20 the College successfully delivered its student activity target of 108,068 credits, following an in-year distribution of an additional 333 credits, with actual credits exceeding this at 108,331.

Exhibit 8

Delivery of student activity credits target 2015/16 to 2019/20

Year	Core activity target	Activity delivered	Difference
2019/20	108,068*	108,331	+ 263 credits
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 and 2019/20 credit targets shown include an additional 1,500 credits for 2018/19 and 333 credits for 2019/20 that the SFC transferred to the College during the year.*

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

The Cumberford-Little report highlighted the importance of 21st century colleges being agile, flexible and adaptable if they are to maximise their contribution to delivering Scotland's national priorities

176. In February 2020 the principals of Scotland's two largest colleges, Edinburgh College and City of Glasgow College, published the *Cumberford-Little Report, One Tertiary System: Agile, Collaborative, Inclusive*. The report was commissioned by the Scottish Government to consider what more Scottish colleges can do to help improve businesses' performance and productivity.

177. The findings of the report identified the significant economic impact colleges already have and identified how colleges support a wide range of Scottish Government national priorities, highlighting examples of best practice across Scotland. The authors also made a series of recommendations aimed at allowing colleges to make an even greater contribution to business growth, particularly among Scotland's huge small and medium-sized enterprise, and micro-business communities.

178. The recommendations in the report were directed to Scottish Ministers and the Scottish Funding Council. However, the report also highlighted the key principle that 21st century colleges require to be agile, flexible and adaptable if they are to maximise their contribution to delivering Scotland's national priorities. Although the report was published prior to the Covid-19 outbreak, this overarching principle will be even more important in a post-Covid world.

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

179. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Appendix 3 details reports which may be of interest to the College. During 2019/20, we also published a range of documents aimed at assisting public bodies in addressing some of the potential issues presented by Covid-19. These have all been published on Audit Scotland's website and can be accessed via the dedicated Covid-19 hub.

180. During our audit appointment we have noted that relevant national reports are taken to the Audit and Risk Committee for consideration. During 2019/20 this included the *Covid-19: Guide for audit and risk committees* which was accompanied by the completed self-assessment checklist, and other supplementary information explaining how the findings and recommendations relate to the specific circumstances of the College. We welcome this positive response to our national reports.

Appendix 1

Action plan

No.	Issue/risk	Recommendation	Agreed management action/timing
2019/20 recommendations for improvement			
1	**Approval and evidencing of exit package** We identified that one exit package had not been authorised in accordance with the College's policy. As a result of the cyber-attack evidence supporting this decision was not available for review by audit. ***There is a risk that the College does not comply with SFC guidance to obtain clearance on exit packages or retain appropriate evidence of settlement agreement decisions.***	Management should ensure that all exit packages are authorised in accordance with the applicable guidance and are supported by an appropriate business case. Exhibit 3 – Point 2	Agreed. This was a single omission where the mandatory pension costs incurred marginally exceeded the one-year payback period resulting in payback of 1 year and 14 days. This was notified to SFC when identified who are content with the position. Final VS cost reporting arrangements will be updated to ensure that an omission of this type does not recur. Revised working arrangements implemented post cyber-attack will mitigate against any future large-scale loss of required audit trail data. **Responsible officer:** Vice Principal People & Performance **Agreed date:** 31 January 2021
2	**Fixed asset register - fully depreciated assets** Our review of the asset register identified that there were 153 assets with a nil carrying value. These had a total cost of £29.774 million and had been fully depreciated down to zero by 31 July 2020. ***There is a risk that the cost and accumulated depreciation balances for Property, Plant and Equipment in the financial statements do not accurately reflect the operational assets of the organisation.***	Management should undertake a regular review of the asset register to identify fully depreciated assets. Appropriate adjustments should be made determined by whether these assets are continuing in use. Exhibit 3 – Point 6	Agreed. Prevailing circumstances frustrated plans for a comprehensive review this year but this will be conducted in advance of the current year-end. **Responsible officer:** Head of Finance **Agreed date:** 31 July 2021

No.	Issue/risk	Recommendation	Agreed management action/timing
3	**Revised financial plans to reflect Covid-19** Dundee and Angus College's five-year financial strategy covering 2019/20-2023/24 was approved by the Board in March 2019. ***The longer-term financial impact of Covid-19 may make the financial strategy undeliverable.***	The College should produce a revised five-year financial strategy once there is sufficient certainty around the longer-term financial impact of Covid-19. Paragraphs **95**-**97**	Agreed. When there is more stability and certainty surrounding the longer-term impact of Covid-19 a longer terms financial strategy will be produced **Responsible officer:** Vice Principal Corporate Services **Agreed date:** Potentially 2021/22
4	**Five-year estate strategy** The College has in place a five-year estate strategy covering the period 2019/20 to 2023/24. ***Due to the impact of Covid-19, there is an overarching risk for the whole college sector that future plans and investment in estate improvements may be affected by the increase in remote learning.***	The College should review its five-year estate strategy to ensure that the existing plans represent the best approach to supporting an excellent, future-focussed curriculum, in a post-Covid world. Paragraphs **103**-**108**	Agreed. The impact of Covid-19 on capital funding models alongside the Tayside Region opportunities including Tay Cities Deal, MSIP, e-Sport will necessitate a review of the Estates strategy. **Responsible officer:** Head of Estates **Agreed date:** During 2021
5	**Annual capital budget** Colleges are provided with a limited capital budget each year to fund the annual costs associated with existing assets, i.e. depreciation charges and any impairment costs. ***There is a risk that the College's annual capital budget from 2020/21 will be insufficient to cover the additional annual costs associated with the capital works at the Kingsway Campus.***	The College should discuss with the SFC its plans to finance future depreciation costs. Paragraph **117**	The College is conscious of the need to make SFC aware of this and potential future increases were highlighted when submitting this year's AME Return. The dialogue with SFC will continue **Responsible officer:** Head of Finance **Agreed date:** During 2021

Follow up of prior year recommendations

PY1	**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.	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).	**Action complete** The review was completed in October 2020 and presented to the Board in December 2020. It concluded that: *"The Board has a robust self-evaluation process in respect of its overall effectiveness which identifies actions through which*

No.	Issue/risk	Recommendation	Agreed management action/timing
	There is a risk that the Board is not operating effectively		*the Board can continuously develop."*
PY2	**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.	**Action complete** All matches have been investigated. The next data-matching exercise will take place in 2020/21 and the College has provided all data within the requisite timelines. The 2020/21 Internal Audit Plan includes a review of the College's response to the National Fraud Initiative.

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 material misstatement caused by 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. • Review of the Annual Governance Statement and the assurances obtained in support of the statement.	**Results:** • 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. • We tested accruals and prepayments and confirmed that income and expenditure was properly accounted for in the financial year. • We reviewed transactions during the year – no issues highlighted of significant transactions outside the normal course of business. • We reviewed the Annual Governance Statement and the assurances in support of this. No issues were identified. **Conclusion:** Satisfactory
2 Risk of material misstatement caused by fraud in income recognition ISA 240 requires auditors to presume a risk of fraud where income streams are significant. The College recorded income of £44million in 2018/19, of which £35million 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	• Review of budget monitoring reports focussing on significant budget variances. • Detailed testing of income transactions. • Analytical procedures on income streams.	**Results:** • Satisfactory results obtained from our testing of income transactions. • We obtained satisfactory explanations for any significant increases or decreases in income. **Conclusion:** Satisfactory

	with ISA 240, there is an inherent risk of fraud.		
3	**Risk of material misstatement caused by fraud in 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. • Review of budget monitoring reports focussing on significant budget variances. • Consideration of the findings from internal audit's review of procurement. • Detailed testing of expenditure transactions focusing on the areas of greatest risk • Analytical procedures on expenditure streams.	**Results:** • We concluded that the College is proactive in following up NFI matches. • Satisfactory results obtained from our testing of expenditure transactions. • We obtained satisfactory explanations for any significant increases or decreases in expenditure. **Conclusion: Satisfactory**
4	**Estimation and judgments** There is a significant degree of subjectivity in the measurement and valuation of some significant balance sheet assets/liabilities. • Valuations on non-current assets rely on expert valuations and management assumptions. A full valuation of non-current assets is due in 2019/20. • The value of the College's pension liability is an estimate based on information provided by management and actuarial assumptions. **Risk:** Valuations of assets/liabilities are materially misstated.	• Review of the work of the valuer and actuary. • Focused substantive testing of classification and valuation of assets. • Review appropriateness of actuarial assumptions. • Confirm pension valuations in actuarial report are correctly reflected within the 2019/20 accounts.	**Results:** • Our review of the work of the College's valuer confirmed the appropriateness of the methodology and assumptions used. • 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. • Judgements and estimations applied were tested to confirm they were appropriate and reasonable. No issues were highlighted with the judgements and estimates applied. • We obtained assurances from HR in relation to provisions. This supported the information included in the financial statements. **Conclusion: Satisfactory**
Risks identified from the auditor's wider responsibility under the Code of Audit Practice			
5	**Financial Sustainability** The College approved its Financial Forecast Return (FFR) for 2019/20-2023/24 projected an underlying operating deficit from 2021/22 onwards resulting in a negative cash position by 31 July 2024. To address this, the College's financial strategy identified savings of £2.75 million are required over	• Monitor achievement of financial targets, including achievement of student credit targets. • Ongoing assessment of the College's financial strategy, including the assumptions used. • Review of the College's Financial Forecast	**Results:** • The College managed its budget effectively during 2019/20. • The College exceeded its student activity credits target for 2019/20. • Additional income from the SFC to support economic recovery has enabled the College to

	the next five years. Much of the savings required were expected to come from reduced head count achieved through voluntary severance. The College has reported that the voluntary savings assumptions made in the Financial Strategy for 2019/20 are not expected to be realised due to lower than anticipated requests. **Risk:** There is a risk that the College fails to achieve the planned savings and this negatively impacts on their cash balances over the next five years.	Return for 2020/21-2024/25.	budget to achieve a cash-backed surplus of £0.020 million for 2020/21. • The College's three-year Financial Forecast Return shows the cash position being maintained at around £1 million over the three years to 31 July 2023, but this is predicated upon the delivery of savings from staff reductions over the same period. **Conclusion: Unsatisfactory – The College should produce a revised five-year financial strategy once there is sufficient certainty around the longer-term financial impact of Covid-19.** Paragraphs **95**-**97**
6	**Estates Investment** In common with other Scottish colleges, Dundee and Angus College has a significant backlog of repairs and maintenance for its estate. The College's estates strategy covering 2019/20 to 2023/24 sets out an estates plan to be followed during the five-year period and outlines how this will be implemented. The SFC allocated the College £1.646 million of capital maintenance funding to address its high priority works in 2019/20. However, the College has recognised it will need to secure additional funding streams if it is to implement its strategy. A business case is being developed with plans to build a new Science, Technology, Engineering and Maths (STEM) centre funded by the Scottish Government through a Mutual Investment Model (MIM). In addition, the College has planned a redevelopment of its Kingsway Tower and intends to submit a bid to the Dundee and Angus Foundation to seek financial support for this project. **Risk:** Should the anticipated funding not be secured, there is a risk that it impacts on the ability of the College to address the condition if its estate and continue to deliver their core services in a safe environment. There is also a related risk that the condition of the	• Ongoing assessment of the College's five-year estate strategy. • Monitor progress of funding applications.	**Results:** • Phase 1 of the Kingsway Tower redevelopment commenced in June 2020 but issues have been encountered that could affect the delivery and costs of the overall project. • There is a risk that the College's plans for a new build STEM centre on the Kingsway Campus, funded through a Mutual Investment Model, are impacted by the current pressure on public finances. **Conclusion: Unsatisfactory – The College should review its five-year estate strategy to ensure that the existing plans represent the best approach to supporting an excellent, future-focussed curriculum, in a post-Covid world.** Paragraphs **103**-**108**

estate impacts on the ability of the College to attract new students.

Overarching financial statements and wider dimension risks

7	**Impact of cyber attack** In January 2020, the College experienced a three-day cancellation of all student classes following a significant cyber-attack. This impacted on a number of College systems and resulted in certain data and records being encrypted. **Risks:** There is a risk that financial information and evidence required for the financial statements audit may not be available. There is also a risk that the encryption of other key information impacts on the day-to-day operation of the College. Furthermore, there is a risk that the College may be vulnerable to future cyber-attacks.	• We will review the financial controls introduced following the cyber-attack. • We will select audit samples at an early stage, wherever possible, to enable the College to obtain supporting documentation from external parties where required (e.g. copy invoices from suppliers for expenditure sample testing). • We will continue to monitor the ongoing implications from the cyber-attack, including the arrangements put in place by the College to prevent future attacks.	**Results:** • The College had to implement a number of changes to its systems of internal control during 2019/20 due to the impact of the cyber-attack and Covid-19. • Since this incident, good progress has been made in implementing the recommendations of the independent JISC Computer Security Incident Response Team review. **Conclusion: Satisfactory**
8	**Impact of Covid-19** In line with the tighter restrictions introduced, in response to the Coronavirus outbreak, to limit social interaction and non-essential work within the UK, the College closed to all students on 18 March, and to staff on 23 March. **Risks:** The impact of Covid-19 will have a pervasive effect on all aspects of the College's operations and presents a wide range of risks for the 2019/20 audit.	• We will continue to discuss our audit approach, and timetable, with management during the course of the year to agree how we can work together to adapt and respond to the changing circumstances.	**Results:** • Despite the impact of Covid-19, the audited annual report and financial statements were signed off by the 31 December deadline. • The College created Project 2020 to support a coordinated and inclusive approach to reopening the College's campuses and returning to face-to-face learning and services in September 2020. • The College has responded well to the increased health, safety and wellbeing challenges presented by Covid-19. **Conclusion: Satisfactory**

Appendix 3

Summary of national performance reports 2019/20

2019/20 Reports

	Apr	
Social security: Implementing the devolved powers	**May**	
Scotland's colleges 2019	**Jun**	Enabling digital government
	Jul	
NHS workforce planning - part 2	**Aug**	
Finances of Scottish universities	**Sept**	
NHS in Scotland 2019	**Oct**	
	Nov	
Local government in Scotland: Financial overview 2018/19	**Dec**	
Scotland's City Region and Growth Deals	**Jan**	Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
	Feb	
	Mar	Early learning and childcare: follow-up

Dundee and Angus College

2019/20 Annual Audit Report

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