Dundee and Angus College

2021/22 Annual Audit Report

AUDIT SCOTLAND

Prepared for Dundee and Angus College and the Auditor General for Scotland

December 2022

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Financial management

4 The college reported an operating deficit of £2.048 million and an underlying operating deficit of £1.450 million for the year to 31 July 2022.

5 Voluntary severance costs and expenditure originally budgeted for in 2020/21 significantly impacted on the college's 2021/22 budget.

6 The college has a well-established budget monitoring and reporting process in place.

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8 Pressures arising from the wider economic environment together with proposed flat cash funding settlements will require colleges to make difficult decisions to achieve financial sustainability.

9 The college undertook a financial planning exercise to identify savings and investment opportunities to help address its financial challenges in 2022/23. Despite this, a cash-backed deficit of £0.586 million is currently budgeted for in 2022/23.

10 The college's five-year Financial Forecast Return shows recurring deficits up to 2026/27, reflecting the financial pressures on the college and the sector.

11 The college approved its new Infrastructure Strategy in 2021/22. However, its estate and digital developments, and achievement of its climate change aspirations, relies on sufficient investment being received from the Scottish Government and Scottish Funding Council.

Governance and transparency

12 Effective governance and decision-making arrangements were in place during 2021/22.

13 The college conducts its business in an open and transparent manner.

Value for money

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

15 The college has made good progress in achieving the metrics set out in its five-year strategic plan.

16 Despite the ongoing impacts of the pandemic, performance in most areas was above the national average. However, if the continued trend of increased withdrawal rates and decreased enrolment continues there will be negative consequences for both funding and budgets in future years.

Introduction

1. This report summarises the findings from our 2021/22 audit of Dundee and Angus College (the college) and its group.

2. The scope of our audit was set out in our annual audit plan presented to the June 2022 meeting of the Audit and Risk Committee. This report comprises the findings from:

- the audit of the annual report and financial statements
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the Code of Audit Practice 2016.

Responsibilities and reporting

3. Dundee and Angus College is responsible for preparing its 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 it to successfully deliver its objectives.

4. Our responsibilities as independent auditor are established by 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. We undertake our audit in accordance with International Standards on Auditing, and the auditing profession's ethical guidance.

5. At the conclusion of our audit, we provide an independent auditor's report for inclusion in 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, financial position, and arrangements for securing financial sustainability and value for money.

6. This report raises matters from our audit. 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.

7. Our annual audit report contains an agreed action plan 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. Members of the Audit and Risk Committee should ensure that they are satisfied with the proposed actions and have a mechanism in place to assess progress and monitor outcomes.

Communication of fraud or suspected fraud

8. In line with ISA 240, in presenting this report to the Audit and Risk Committee (ARC) we seek confirmation from members of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members of the ARC have any such knowledge or concerns relating to the risk of fraud within the college, we invite them to communicate this to the appointed auditor for consideration.

Adding value through the audit

9. In addition to our primary responsibility of reporting on the annual report and financial statements we seek to add value to the college by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we aim to help the organisation promote improved standards of governance, better management and decision making, and more effective use of resources.

Appointment of external auditors 2022/23 to 2026/27

10. In March 2022, Audit Scotland wrote to the college noting that its external auditor for the period 2022/23 to 2026/27 would be Mazars. We will work closely with the new auditor to ensure a well-managed transition.

New Code of Audit Practice

11. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

12. The Code outlines the objectives and principles to be followed by all auditors. The audit of financial statements is covered by auditing standards, so the Code focuses more on the wider dimension objectives and responsibilities of public sector auditors. It is a condition of their appointment by the Auditor General for Scotland or the Accounts Commission that they follow it.

Auditor Independence

13. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

14. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £25,490, as set out in our annual audit plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

15. 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.

1. Audit of 2021/22 annual report and financial statements

The principal means of accounting for the stewardship of resources and performance.

Main judgements

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

Expenditure and income in the financial statements were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers.

The audited part of the performance report, governance statement and the remuneration and staff report were all consistent with the financial statements and properly prepared in accordance with applicable legislation and directions made by the Scottish Funding Council.

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

16. The annual report and financial statements for the year ended 31 July 2022 are to be approved by the Board of Management on 13 December 2022. As reported in 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 applied in accordance with legislation 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.

17. We are satisfied that there are no matters upon which we are required by the Auditor General to report by exception.

The audited annual report and financial statements were signed off by the 31 December 2022 deadline

18. We received the unaudited annual report and financial statements on 10 October 2022. This was in line with the agreed timetable. The annual report and financial statements submitted for audit were of a satisfactory standard as were the supporting working papers. Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

19. This has allowed us to sign off the annual report and financial statements by the 31 December 2022 deadline.

Our audit testing reflected the calculated materiality levels

20. Materiality can be defined as the maximum amount by which auditors believe the annual report and financial statements could be misstated and still not be expected to affect the perceptions and decisions of users of the annual report and 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).

21. Our initial assessment of materiality for the annual report and financial statements is undertaken during the planning phase of the audit. On receipt of the unaudited annual report and financial statements, and following completion of audit testing, we reviewed our original materiality calculations and concluded that they remained appropriate. Our materiality levels are set out at exhibit 1.

Exhibit 1
Materiality levels

Materiality level	Amount
Overall materiality- This is the figure we use in assessing the overall impact of potential adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 July 2022.	£0.795 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 calculated performance materiality at 75% of planning materiality.	£0.595 million
Reporting threshold- We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold' amount. This has been set at 5% of planning materiality.	£0.040 million

Source: Audit Scotland

Our audit identified and addressed the significant risk of material misstatement together with the other areas of audit focus reported in our 2021/22 annual audit plan

22. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit, we identified one significant risk of material misstatement which could impact on the annual report and financial statements. Exhibit 2 sets out the risk together with the work we undertook to address it and our conclusion from this work.

Exhibit 2

Significant risk of material misstatement reported in the 2021/22 annual audit plan

Description of risk	Audit response to risk	Results and conclusion
1. Risk of management override of controls As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of their ability to override controls that otherwise appear to be operating effectively.	Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Evaluate significant transactions outside the normal course of business. We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.	**Results:** We assessed the design and implementation of controls over journal entry processing. No issues were noted. Management did not identify any inappropriate or unusual activity with journals or other adjustments. Journal adjustments were tested, and no indications of management override of controls were found. We reviewed transactions during the year - no issues were highlighted of transactions outside the normal course of business. Judgements and estimations applied were tested to confirm they were appropriate and reasonable. **Conclusion:** There was no evidence of management override of controls from the work performed.

Source: Audit Scotland

23. Our 2021/22 annual audit plan also noted other risks of material misstatement to the annual report and financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider that these represented a significant risk. The other areas of audit focus were:

- The estimation and judgement involved in accounting for the pension liability
- The estimation and judgement involved in accounting for the valuation of land and buildings.

24. We kept these areas under review throughout our audit. There are no matters relating to these areas which we need to bring to your attention. Further comment of the significant movement in the pension balance is included at paragraphs 30 to 37.

There were accounting adjustments identified from our audit of the annual report and financial statements

25. Adjustments with a gross total of £1.384 million were identified from the audit of the annual report and financial statements. As this total was above our performance materiality, we amended our audit approach.

26. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior management and materiality. Management have adjusted for the issues noted in exhibit 3. The correction of these adjustments contributed to the deficit in the Statement of Comprehensive Income reducing by £1.343 million with a corresponding decrease in the college's net assets.

27. In addition, in accordance with normal audit practice, a number of presentational and disclosure amendments were discussed and agreed with management.

We have significant findings to report on the annual report and financial statements

28. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to "those charged with governance". The qualitative aspects of the college's accounting practices, accounting policies, accounting estimates and accounts disclosures are satisfactory and appropriate to the college.

29. 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 in appendix 1 has been included.

Exhibit 3

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

Issue	Resolution
1. Fixed asset register - fully depreciated assets As part of our 2019/20 and 2020/21 audits we recommended that management undertake a comprehensive review of the fixed asset register to identify fully depreciated assets and determine whether these assets were continuing. Due to competing workload priorities, this was not actioned by management in time for the preparation of the 2021/22 unaudited financial statements. Together with management we identified that there were 30 assets with a nil carrying value as at 31 July 2022. These assets had a total initial cost of £5.193 million. Management subsequently completed a review of these fully depreciated assets. This resulted in accounting adjustments to reflect the continuing use of these assets. Assets that were no longer in use were removed from the asset register and financial statements. The resulting changes arising from the fixed asset review did not affect the college's adjusted operating position.	In respect of assets fully depreciated but still in use, management estimated the remaining useful life of these. This involved discussions between Finance, Estates, and ICT to determine the condition of the assets and the likelihood of replacement taking into consideration the college's ongoing programme of repair and maintenance. There were 23 assets that were covered by this review and assigned a new useful life. These changes resulted in the reversal of £0.708 million of prior year depreciation charges which has led to a corresponding increase to the college's fixed assets balance in its financial statements. A depreciation charge will be made in future years for these assets based on the new estimated remaining useful lives. The review also identified 7 assets that were no longer in use. These have been removed from the asset register. These disposals, totalling £0.604 million, have reduced both the cost and accumulated depreciation disclosures within note 12 to the audited financial statements. We reviewed managements useful life assessment, and re-calculation of depreciation, and are satisfied with the above accounting adjustments made to the audited financial statements. Alongside the 2022/23 asset valuation exercise, we recommend that management undertake a full review of asset existence and associated useful lives to ensure the asset register remains accurate. **Recommendation PY1 at appendix 1**

Issue	Resolution
2. Omission of income Through our discussions with management, we were notified that grant funding amounting to £0.676 million, which related to the accrual of funding required for the additional notional annual cost of implementing support staff job evaluation, had been initially omitted from the unaudited financial statements in error. This resulted in both income and trade and other receivables being understated.	Management have adjusted for this in the audited financial statements. As the value was above our performance materiality, we considered the need for additional audit testing. No further issues were identified. We are satisfied this was an isolated error.

Source: Audit Scotland

Other areas of audit interest from the annual report and financial statements

Volatility in the markets resulted in a year-on-year movement of £26.597 million in the college's pension balance

30. This section is included for information as we consider that the large year-on-year movements in the pension balance require explanation and comment. We are satisfied that the college's disclosure of its pension balance complies with required accounting practices.

31. 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 provide the disclosures for these schemes in accordance with applicable guidance.

32. As required by Financial Reporting Standard 102 (FRS102) the college has recognised its pension balance in the Statement of Financial Position in respect of its membership of Tayside Pension Fund which is a defined benefit LGPS.

33. 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.

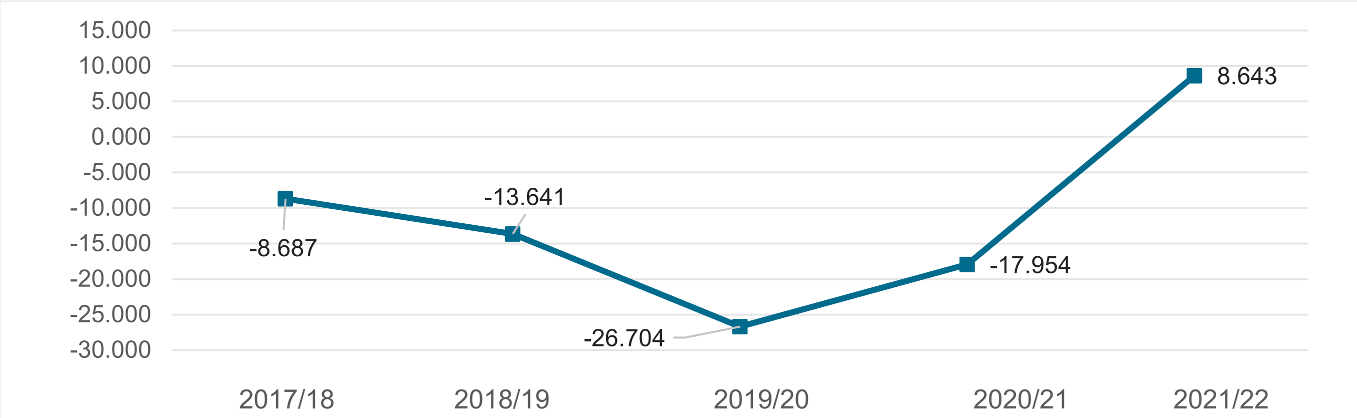
34. We have reviewed the actuarial assumptions used for the valuation and are satisfied that they appear reasonable and in line with assumptions used by other public sector actuaries over the same period.

35. The Tayside Pension Fund actuary provided an estimate of the college's pension balance as at 31 July 2022. The actuary advised of a positive movement of £26.597 million in this balance, from a liability of £17.954 million in 2020/21 to an asset of £8.643 million in 2021/22. This is reflected in the college's Consolidated Statement of Financial Position.

36. 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. The bond yield as at 31 July 2022 was higher than at 31 July 2021, reflecting the increased economic uncertainty and pessimism in the market. As a result, the discount rate assumed for employers was higher than that assumed at the previous accounting date. A higher discount rate will result in a lower value being placed on the scheme obligations and a positive movement in the overall balance sheet position.

37. Exhibit 4 sets out the movement in the college's pension balance 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. Slight 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 pension balance over the last five years.

Exhibit 4
Movement in pension balance 2017/18 to 2021/22



Source: Dundee and Angus College annual report and financial statements 2017/18 – 2021/22

The college's 2021/22 performance report provides a reasonable picture of its performance and operational activity for the year but there remains scope to improve the performance analysis section

38. HM Treasury Financial Reporting Manual (FReM) requires a performance report to be included in a body's annual report and financial statements. 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. The FReM specifies that it should provide "a fair, balanced and understandable" analysis of a body's performance to meet the needs of Parliamentarians and other stakeholders.

39. We concluded that the college's 2021/22 performance report is consistent with our knowledge and experience of the organisation.

40. Over the course of our audit appointment gradual improvements have been made to the structure and content of the performance report. Going forward we would encourage the college to further enhance the performance analysis section of the performance report. In particular, the Board and committee metrics disclosed in the report do not contain full details of actual performance levels against targets or trend analysis comparing the current year's performance with the prior year.

The governance statement provides good disclosure on the college's governance arrangements during 2021/22

41. The SFC's Account Direction requires colleges to comply with the FReM and the Scottish Public Finance Manual (SPFM) when preparing their governance statement. The SPFM sets out guidance on the content and minimum requirements of the statement but does not prescribe a format. The Accounts Direction also requires colleges to conclude on its compliance with the 2016 Code of Good Governance for Scotland's Colleges, or to explain any areas of non-compliance.

42. We are satisfied that the college's governance statement complies with SPFM guidance and presents a good explanation and assessment of its governance arrangements for the year under review.

43. The college has assessed its overall effectiveness of corporate governance against the 2016 Code of Good Governance for Scotland's Colleges. It noted one departure from this. A member of its senior leadership team is also the Secretary to the Board. The college's Board of Management is satisfied with the arrangements put in place by the college to avoid any conflicts of interest. Over the course of our audit appointment, we have not identified any issues with this arrangement. The college has made clear disclosure of this departure in its governance statement.

44. In its governance statement, the college has made appropriate disclosure on the continued impact that Covid-19 has had on its governance arrangements in 2021/22 and the steps it has taken in response to this. All Board and committee meetings continued to be held virtually during 2021/22, with updates on the college's response to the pandemic included as a standing item on meeting agendas. During 2021/22 the college maintained, and reported to members, its Covid-19-specific risk register. The register was used to help identify and mitigate any disruption caused by the pandemic.

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

45. The FReM requires the college 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 as 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.

46. During 2021/22, 42 individuals agreed to leave the college under voluntary severance agreements or redundancy. These departures were disclosed in the remuneration and staff report. We confirmed that the college had followed the procedures outlined within SFC's guidance for seeking approval for voluntary severance schemes.

47. We have no issues to report in relation to the information included within the remuneration and staff report in the college's 2021/22 annual report and financial statements.

Our audit work addressed the wider dimension risks identified in our 2021/22 annual audit plan

48. The Code of Audit Practice 2016 requires auditors to consider the wider dimensions of public sector audit (financial management, financial sustainability, governance and transparency and value for money). Within our 2021/22 annual audit plan we identified two wider dimension risks in relation to:

- Financial sustainability
- Infrastructure needs assessment and investment

49. Appendix 2 summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions derived from the work completed. Further details of our work in relation to the audit dimensions is included in sections 2 to 5 of this report.

Progress was made on addressing prior year audit recommendations

50. We followed up on actions agreed in our 2020/21 annual audit report, to assess what progress on implementation had been made. Details of the follow up are included in appendix 1. Following our work in 2021/22, progress with one prior year recommendation remains ongoing: Fixed asset register - fully depreciated assets - see exhibit 3, PY issue 1.

2. Financial management

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

Main judgements

The college reported an operating deficit of £2.048 million and an underlying operating deficit of £1.450 million for the year to 31 July 2022.

Voluntary severance costs and expenditure originally budgeted for in 2020/21 significantly impacted on the college's 2021/22 budget.

The college has a well-established budget monitoring and reporting process in place.

High-level systems of internal control operated effectively in 2021/22.

The college reported an operating deficit of £2.048 million and an underlying operating deficit of £1.450 million for the year to 31 July 2022

51. The college reported an operating deficit for the year to 31 July 2022 of £2.048 million (£2.162 million in 2020/21) in its Statement of Comprehensive Income (SoCI).

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

53. The underlying operating position of the college, reported within the performance report, shows an underlying operating deficit of £1.450 million for the year to 31 July 2022 (surplus of £2.168 million in 2020/21).

The college, and the sector is increasingly reliant on SFC funding

54. SFC grant funding accounted for 76% of the college's income in 2021/22 (81% in 2020/21), exhibit 5. The national average, based on 2020/21 data, was 79%. The college received a non-recuring donation of £3.300 million from the

Dundee and Angus Foundation in 2021/22 for its Kingsway Tower redevelopment project. If this income is removed, SFC grant funding equates to 81% of the college's total income in 2021/22.

55. The college's Financial Forecast Return (FFR) indicates that SFC grant income will account for 83% of the college's total income next year, exhibit 6. Further comment on the 2022/23 budget and the FFR is detailed in section 3 of this report.

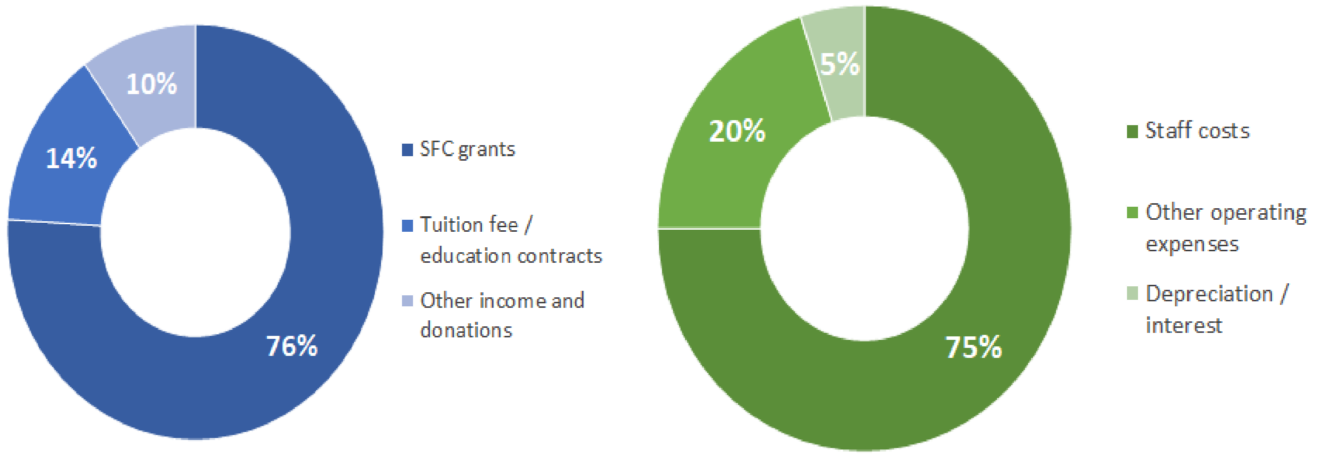
The college's staff costs as a percentage of its total expenditure are above the national average

56. Staff costs, including costs related to the college's voluntary severance scheme (VSS) accounted for 75% of the college's total expenditure in 2021/22 (73% in 2020/21), exhibit 5. The national average, based on 2020/21 data, was 71%.

57. To help address known future financial pressures, the college operated a VSS in 2021/22 which resulted in 42 staff leaving at a cost of £1.286 million. These costs were accounted for in the 2021/22 budget. The removal of these one-off costs does not change the overall staff costs to total expenditure percentage for 2021/22. The college anticipates these departures will generate recurring savings of around £1.490 million. The implications of these departures, together with any further VSS leavers, has the potential to impact the delivery of learning, student outcomes and the experience of remaining staff.

58. The college's FFR indicates that staff costs will account for 68% of the college's total expenditure next year, exhibit 6. The reduction is primarily achieved through the above VSS savings together with vacancy management. Further comment on the 2022/23 budget and the FFR is detailed in section 3 of this report.

Exhibit 5
Analysis of 2021/22 income and expenditure



Source: Dundee and Angus College 2021/22 annual report and financial statements

Voluntary severance costs and expenditure originally budgeted for in 2020/21 significantly impacted on the college's 2021/22 budget

59. The draft 2021/22 budget was presented to the Board of Management in June 2021. This projected a cash-backed surplus of £0.215 million for the year to 31 July 2022, based on total income of £43.742 million and total expenditure of £43.527 million (including £34.462 million for total pay costs).

60. Following the SFC's 2022/23 funding announcement in March 2022 it became apparent that action was needed to address the flat cash funding settlement. The college undertook a college-wide financial planning exercise in the spring into the summer of 2022 to identify savings and investment opportunities to help address its projected financial challenges in 2022/23. This exercise is discussed further at paragraphs 79 to 86 below. Whilst primarily focused on the 2022/23 budget, the outcomes of this exercise also impacted on the 2021/22 budget.

61. At the Finance and Property Committee in September 2022, members received a report entitled "2021/22 draft outturn". This indicated a likely cash-backed deficit for the year of £1.135 million.

62. When compared with the original budgeted surplus of £0.215 million, this represents a negative movement of £1.350 million. The most notable movements across the year were:

- **Staff costs:** To help mitigate the identified financial pressures in 2022/23 the college undertook a "Future Opportunities and Financial Challenges Consultation" process in 2021/22. This aimed to identify solutions to address its 2022/23 interim budget deficit of £2.878 million. The college ran a voluntary severance scheme for staff. 42 staff were approved for departure in 2021/22. The £1.286 million severance costs associated with this were provided for within 2021/22 budget.

- **Other operating expenses:** There was £0.826 million of planned spend from 2020/21, primarily on ICT, that was not receipted within that year due to delivery challenges. This resulted in these costs being incurred in 2021/22.

63. The changes in the budget position were reported in the budget monitoring reports presented to the Finance and Property Committee throughout the year.

The college has a well-established budget monitoring and reporting process in place

64. 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, disclose the forecast outturn, and include a good level of detail in the narrative to explain the main budget variances.

65. 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.

66. The college has a well-established budget monitoring and reporting process in place.

High-level systems of internal control operated effectively in 2021/22

67. As part of our 2021/22 audit, we evaluated the design and implementation of the key controls operating over the main accounting systems. Our objective was to gain assurance that systems for processing and recording transactions provide a sound basis for the preparation of the financial statements.

68. We did not identify any control weaknesses from this work.

Internal audit reported that the college had adequate and effective risk management, control, and governance arrangements in place during 2021/22

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

70. 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).

71. We considered internal audit's annual report as part of our review of the governance statement included within the accountability report in the 2021/22 annual 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 2021/22.

The college has in place appropriate arrangements for the prevention and detection of fraud and other irregularities

72. The college's Board of Management 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.

73. The college has in place a range of established procedures for preventing and detecting fraud and irregularity. These include the college's:

- codes of conduct for staff and members of the Board of Management
- gifts and hospitality policy
- fraud, bribery, and corruption policy.

74. The college continues to participate in the National Fraud Initiative (NFI), 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.

75. We have concluded that adequate arrangements are in place for the prevention and detection of fraud and other irregularities. In addition, our review of expenditure and income during the audit did not highlight any issues with the regularity of the college’s transactions, or any instances of business decisions being taken that did not appear to reflect value for money. We are not aware of any specific issues that we need to bring to your attention.

3. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services.

Main judgements

Pressures arising from the wider economic environment together with proposed flat cash funding settlements will require colleges to make difficult decisions to achieve financial sustainability.

The college undertook a financial planning exercise to identify savings and investment opportunities to help address its financial challenges in 2022/23. Despite this, a cash-backed deficit of £0.586 million is currently budgeted for in 2022/23.

The college's five-year Financial Forecast Return shows recurring deficits up to 2026/27, reflecting the financial pressures on the college and the sector.

The college approved its new Infrastructure Strategy in 2021/22. However, its estate and digital developments, and achievement of its climate change aspirations, relies on sufficient investment being received from the Scottish Government and Scottish Funding Council.

Pressures arising from the wider economic environment together with proposed flat cash funding settlements will require colleges to make difficult decisions to achieve financial sustainability

76. In its Scotland's Colleges 2022 report Audit Scotland highlighted the significant challenges that colleges across Scotland face, both in the short and medium to longer-term. There is a need for colleges to balance the delivery of high-quality learning with the difficult financial decisions required to remain financially sustainable in the medium to longer-term.

77. These decisions need to be made against a backdrop of the current cost of living crisis, impact of inflationary increases, and the proposed flat cash settlements for the sector over the next four years (equating to an eight per cent reduction in real terms). Taken together, the college sector faces challenging years ahead.

78. The Audit Scotland report emphasised the need for the Scottish Government (SG) and the Scottish Funding Council (SFC) to clarify the expectations and priorities for the sector for the medium and long-term, and the funding available to deliver on these priorities. This includes the need for the SG and SFC to determine the most appropriate model for funding colleges, and the targets underpinning it, to allow colleges to deliver national policies and priorities sustainably. Until these decisions are made at a national level, it makes the preparation of meaningfully medium to longer-term strategic planning challenging for the college.

The college undertook a financial planning exercise to identify savings and investment opportunities to help address its financial challenges in 2022/23. Despite this, a cash-backed deficit of £0.586 million is currently budgeted for in 2022/23

79. The impact of the financial environment in which the college is operating in presented significant challenges to its 2022/23 budget. An initial draft 2022/23 budget was presented to the Board of Management in June 2022. At the time, this was budgeting a deficit of £2.878 million. At the meeting, members agreed to delay approving the draft budget to allow management time to complete the savings exercise with the aim of reducing this deficit.

80. The college undertook a review to secure savings and identify areas where investment was required. The review aimed to deliver an improved budget position to allow the college sufficient time to implement further changes to reach a financially sustainable position by 2023/24. The investment areas focussed on maintaining the college's current service provision. For example, through further investment in its school engagement team the college aims to continue to promote itself as an attractive destination for local school leavers.

81. At the September 2022 Board of Management meeting, members approved the 2022/23 budget. Following the savings exercise, the budgeted deficit had been reduced to £0.586 million. Whilst some areas within the budget had deteriorated further since the initial draft, most notably the increase in utility costs due to inflationary pressures, there were favourable movements in several areas, including:

- **Staff costs:** further savings of around £1.600 million were identified from the VSS run in 2021/22 and vacancy management.
- **ICT costs:** reduce by £0.300 million pending approval from the Dundee and Angus Foundation to support the first phase of the college's ICT network replacement. The submission to the Foundation was for funding support of up to £0.700 million that will be used to upgrade the college's network and systems over the next 2 years.

82. The 2022/23 budget papers were 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. Despite the budget not being balanced, the college considers this position to be manageable, given its forecasted cash balance of £3.555 million at July 2023. It aims to implement further changes to reach a financially sustainable position by 2023/24.

83. To help address the financial issues and balance budgets, it is expected that colleges will strive to increase non-SFC income and reduce their costs.

84. As seen in exhibit 6, the college's Financial Forecasts Return (FFR), submitted to the SFC in September 2022, highlights a continued reliance on SFC income over the medium-term. We recognise that the college has taken steps to try and increase non-SFC income but its reliance on this funding is not expected to change markedly over this period. The college's 2022/23 budget notes that non-SFC income generation for this year is not expected to revert to pre-pandemic levels given the current cost of living crisis and the inflationary pressures brought about by this. The college has identified and invested in other sources of income generating activities, such as its involvement in various Tay City Deal projects and the Michelin Scotland Innovation Parc Skills Academy. However, it does not expect that income from these new projects will be generated until 2023/24 onwards.

85. Exhibit 6 also identifies that staff costs will continue to account for over 70% of the college's cost base in the medium-term. Any reduction in this area will have to be carefully balanced against the negative impact on staff morale and student experience.

86. The college's strong budget monitoring process will be important in ensuring it meets its challenging forecasted financial demands that will continue during 2022/23 and into the medium-term.

Exhibit 6

FFR projected SFC income and staff costs 2022/23 to 2026/27

Description	2022/23	2023/24	2024/25	2025/26	2026/27
SFC income as a percentage of overall college income	83%	85%	85%	84%	84%
Staff costs as a percentage of overall college expenditure	68%	71%	71%	71%	71%

Source: Dundee and Angus College 2021/22 Financial Forecast Return

The college approved a new financial strategy. This identifies significant financial pressures over the medium-term

87. Planning for the medium to longer-term term is difficult, but necessary to manage the levels of uncertainty and volatility facing colleges' budgets.

88. Medium and longer-term financial plans should be kept under review by all colleges to consider additional financial pressures and updated funding arrangements, as well as updated savings requirements and financial assumptions.

89. The college's Board of Management approved its new Financial Strategy 2022-2027 in March 2022.

90. The financial sustainability challenges being faced by the college are sector-wide issues. As such, the figures presented in the SFC forecasting model (Financial Forecast Return) are more appropriate to analyse. Moreover, the figures reported in the college's Financial Strategy have been superseded by those detailed in the September 2022 Financial Forecast Return, discussed further below.

91. The college's Financial Strategy details a difficult financial position over the medium-term, but its development will bring into focus these identified challenges together with opportunities to address them. The Strategy is a live document and will be subject to regular review and scrutiny by members.

The college's five-year Financial Forecast Return shows recurring deficits up to 2026/27, reflecting the financial pressures on the college and the sector. Transformational change is needed to ensure the financial sustainability of the college

92. The Financial Forecast Return (FFR) is an established part of the Scottish Funding Council's (SFC) financial health monitoring framework. The FFR allows the SFC to monitor and assess the medium-term financial planning and health of colleges.

93. On 11 August 2022, the college were advised of the format and assumptions to be used for the 2021/22 FFR, with the deadline for submission to the SFC being 30 September 2022. The return covered the academic years 2021/22 to 2026/27. The FFR was considered by the college's Board of Management in September 2022 prior to this being submitted to the SFC by the required deadline. 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 financial challenges facing the college. The paper also provided additional context for Board members on the current economic and financial pressures being experienced both nationally and at a local level and how these affect the future financial projections.

94. The FFR submitted by the college to the SFC in September 2022 indicated a challenging financial position over the medium-term. A projected underlying deficit for all years covered by the FFR was indicated, exhibit 7. The projected underlying closing cash positions for 2022/23 to 2026/27 are also shown in exhibit 7. The college has identified that its cash position is sustainable for the short-term but there remains a financial sustainability risk in the medium-term, with cash funds forecast to be exhausted by 2024/25.

Exhibit 7

FFR projected underlying operating and closing cash balance positions

Description	2022/23 £'million	2023/24 £'million	2024/25 £'million	2025/26 £'million	2026/27 £'million
Underlying operating surplus / (deficit)	(£1.770)	(£3.264)	(£4.096)	(£4.976)	(£5.911)
Closing cash position	£3.555	£1.015	(£2.357)	(£6.609)	(£11.796)

Source: Dundee and Angus College 2021/22 Financial Forecast Return

95. The SFC's Financial Memorandum with colleges requires them to plan and manage their activities to remain sustainable and financially viable. The SFC expects colleges to aim to achieve a balanced budget each year. However, where a deficit is projected in any year, colleges should have plans in place to achieve a balanced position over the forecast period.

96. As part of the accompanying paper to the FFR, the college noted proposed actions, including the pros and cons of each, to help reduce the identified deficits in its FFR. These included:

- efficiencies to reduce staff costs, primarily through further voluntary severance departures
- application for funding to the Dundee and Angus Foundation
- review of the college estate
- assessment of curriculum and service provision.

97. The college is committed to minimising the forecasted deficits. Management and members have a clear view of the financial challenges and medium-term risks the college faces. It is recognised that there is only so much direct control the college has when it comes to presenting a balanced budget and that even those controllable actions, as noted below, have the potential to create adverse impacts on staff and students.

98. As highlighted in exhibit 6, staff costs are the biggest controllable expense to the college. The FFR indicates substantial savings would need to be made from this budget area to address the college's financial challenges over the medium-term. The savings achieved by the college for its 2022/23 budget have been primarily driven by its voluntary severance scheme (VSS). Guidance from the SFC is that VSS will continue to be funded from college resources. Should the college, as proposed in the FFR, need to make further efficiencies through VSS this may prove challenging to fund given the SFC's current position on this. In addition, running further VSS will need to be balanced against the impact on learners and staff morale.

99. Until such time as either additional funding is made available or the college can identify and implement cost efficiencies and develop its additional income streams, we consider there are concerns over the financial sustainability of the college in the medium to longer-term.

Recommendation 1

Given the scale of the identified financial pressures, there is a need for the college to implement transformational change to ensure it remains financial sustainable in the medium to longer-term.

The college approved its new Infrastructure Strategy in 2021/22. However, its estate and digital developments, and achievement of its climate change aspirations, relies on sufficient investment being received from the Scottish Government and Scottish Funding Council

100. In its Scotland's Colleges 2022 report Audit Scotland reported that since 2018/19, the capital funding provided to the college sector has fallen £321 million short of the amount required for lifecycle and backlog maintenance. This has resulted in maintenance needs increasing over time which poses a risk to colleges' ability to maintain the suitability and safety of their buildings. The Scottish Government did not announce any additional capital funding in its multi-year spending review in May 2022.

101. The Gardiner & Theobald College Estate Condition Survey, commissioned by the Scottish Funding Council (SFC) and issued in December 2017, estimated that the total value of Dundee and Angus College's backlog maintenance was £19.718 million. Management estimated this would be in the region of £26 million after VAT and professional fees were added.

102. In 2021/22, the college received total capital grant funding of £3.922 million from the SFC. This included £1.667 million for the college's high priority backlog maintenance needs and a further £1.492 million for its ongoing Kingsway Tower project. In 2021/22 the college also received £3.300 million of funding from the Dundee and Angus Foundation to support this project. This project was completed in time for the beginning of the 2022/23 academic year.

103. The SFC and Scottish Government are working to develop a medium-term capital investment strategy that sets out sector-wide priorities. At the time of writing this has yet to be published.

104. In September 2022, the Finance and Property Committee approved the college's new Infrastructure Strategy. The Strategy sets out projects to be achieved each year up to 2026/27. These include:

- the modelling and roll-out of flexible teaching spaces across the college
- implementation of an annual process that aligns the infrastructure investment with curriculum requirements
- the production of a detailed plan for the replacement of the college's Kingsway Campus.

105. The Infrastructure Strategy will help ensure that investment decisions in both physical and digital infrastructure are focussed towards delivering the key aims of the college's 2025 Strategy – More Successful Students.

106. The college sector has a vital role to play in supporting both the development and delivery of low and zero-carbon infrastructure in Scotland. The sector published its commitment to tackling the climate emergency, including an ambition to achieve net zero by 2040, five years earlier than the national target of 2045. Dundee and Angus College published its Climate Emergency Action Plan in November 2021. This set an ambitious target of achieving Net Zero, for scopes 1 and 2 emissions, by 2030.

107. Progress on the Plan, including details on the achievement of targets and objectives within it, is presented to the Board of Management for their review and scrutiny. Whilst recognising the amount of work and investment required to achieve net zero, there is a clear commitment from the college to work towards this target.

108. There is appropriate attention given to the college's infrastructure needs, with maintenance of the estate factored into its medium-term plans and discussions. However, we recognise that the successful progress of the college's Infrastructure Strategy, and Climate Emergency Action Plan aspirations are reliant on national capital funding decisions and priorities. If the condition of the college estate deteriorates to the extent that student experience is affected, there is likely to be a reduction in student numbers and success. This would in turn reduce the income received by the college and impact on its financial sustainability.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information.

Main judgements

Effective governance and decision-making arrangements were in place during 2021/22.

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

Effective governance and decision-making arrangements were in place during 2021/22

109. The Board of Management is responsible for the overall governance of the college. It is responsible for ensuring the governance framework is operating as intended, together with the monitoring of the adequacy and effectiveness of these arrangements.

110. During our audit appointment we have consistently reported that the college has in place appropriate arrangements to support good governance and accountability. As explained further in paragraphs 41 to 44 we are of the view that governance arrangements remained effective in 2021/22.

The college conducts its business in an open and transparent manner

111. 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 college is taking decisions and how it is using resources such as money, people, and assets.

112. 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 and use of resources for the year.
- The college website provides the public with access to a wide range of corporate information including details of its strategy, performance information, and equality and diversity reporting.

113. Overall, we remain of the view that the college conducts its business in an open and transparent manner.

New appointments, including a new Chair, were made to the college’s Board of Management in 2021/22

114. The term of appointment of the college’s previous Chair of its Board of Management ended in July 2022. A recruitment process was undertaken in the summer of 2022 to fill this position. The new Chair was appointed by the Scottish Government on 11 July 2022 for a period of four years. The college was involved in the recruitment process, including direct engagement in the selection and interview process by the college’s Students’ Association. This engagement aimed to ensure the appointment was a good organisational and cultural fit for the college.

115. In addition to the above appointment, during 2021/22 two further Board vacancies were filled. At the Board of Management meeting in September 2022, members also agreed to extend, for a period of four years, the terms of office for four other members of the Board of Management, whose appointments were ending.

116. The new and re-appointments have ensured the college continues to meet its responsibilities under the terms of the Post-16 Education (Scotland) Act 2013. The Act states that the college Board of Management cannot operate legally with fewer than 15 members and should have no more than 18. It currently has 17 members. The college is currently recruiting for this vacancy.

117. Retaining experienced Board members with recent knowledge of the risks and opportunities facing the college will be important as it looks to progress its strategic priorities in its 2025 Strategy – More Successful Students.

5. Value for money

Using resources effectively and continually improving services.

Main judgements

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

The college has made good progress in achieving the metrics set out in its five-year strategic plan.

Despite the ongoing impacts of the pandemic, performance in most areas was above the national average. However, if the continued trend of increased withdrawal rates and decreased enrolment continues there will be negative consequences for both funding and budgets in future years.

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

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

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

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

120. Internal audit does not consider value for money as a standalone review; however, they consider this within all their audits. Internal audit did not raise any concerns over value for money in 2021/22 and their annual report for 2021/22 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 2021/22 and in each of the previous years since they were first appointed by the college in 2013/14.

121. As detailed below, we consider that the college has effective performance management arrangements in place that supports its progress towards achieving value for money.

The college has made good progress in achieving the metrics set out in its five-year strategic plan, with progress on this reported to its Board of Management

122. The college's 2025 Strategy – More Successful Students was approved by the Board of Management in December 2019. The strategy sets out the college's vision to: "create more successful students through effective partnerships that change lives and create thriving communities." At the time, 17 detailed metrics were created which were designed to form the framework for assessing progress against the overall vision of the plan.

123. Last year we noted the need for the college to report on its performance against these metrics to its Board of Management to ensure effective oversight and scrutiny of the Strategy's progress.

124. In May 2022, a Board of Management strategic planning event was held. This focused on the college's 2025 Strategy and provided members with the opportunity to reflect on the progress, successes, and further development in respect of this Strategy. Since then, at both the June and September 2022 Board of Management meetings, members have been provided with an update on the Strategy, including progress with the metrics.

125. Following the May 2022 review and further discussion at the September 2022 Board of Management meeting, members agreed to replace one of the original metrics with two new ones that would allow for a better comparison of the college to the rest of the sector. In addition, the baseline targets of three other metrics were also revised. At the meeting, of the original 16 metrics, it was noted that:

- Five had been met
- Eight were in progress or had improved since previous reporting
- Three were not in progress or had declined since previous reporting.

126. We welcome the college's positive response to our prior year recommendation and note the progress to date with its 2025 Strategy.

Despite the ongoing impacts of the pandemic, performance in most areas was above the national average. However, if the continued trend of increased withdrawal rates and decreased enrolment continues there will be negative consequences for both funding and budgets in future years

127. The Regional Outcome Agreement is a formal signed document between the Dundee and Angus College Board of Management and the Scottish Funding Council (SFC) which commits the college to deliver several outcomes and outputs as a condition of the funding received.

128. The agreement also sets several 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 SFC. 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.

129. 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 several 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.

130. Further comment on some of these performance measures is detailed in the sections below.

The college delivered on its core credits target in 2021/22

131. The SFC's recurring grant to the college is based on the amount of learning that it delivers. This is measured in units called 'credits' which equate to 40 hours of learning. The college has a strong track record of meeting and exceeding its credits targets and again exceeded the SFC core target (107,332 credits), reporting delivery of 109,018 credits in 2021/22. The college's internal auditor carries out annual checks to confirm the accuracy of the reported credits.

Successful student outcomes are above the Scottish average, but the pandemic impacted on delivery against the college's Regional Outcome Agreement targets

132. We recognise that the 2019/20, 2020/21 and 2021/22 academic years were impacted by the Covid-19 pandemic, with alterations to exam and assessment arrangements during this time making direct, year-on-year comparisons difficult. However, what can be compared is the college's position within the sector. Exhibit 8 shows that the college continues to perform well when compared with the Scottish average for successful student outcomes. It was the best performing college in Scotland for full-time further education (FE) and full-time higher education (HE) outcomes in 2020/21. At the time of writing, the latest available national data relates to 2020/21.

133. The college's 2021/22 Regional Outcome Agreement with the SFC set targets for each of the areas in exhibit 8. Except for full-time HE, the college was under the target percentage in the other areas. It is reasonable to assign these lower percentage thresholds to the impact of the pandemic. The college remained under considerable restrictions for most of 2021/22, up until mid-April 2022. This included a short period of enforced lockdown pre-Christmas 2021 because of the arrival of the Omicron variant.

134. The removal of Covid-19 restrictions in April 2022 has assisted the college in returning to more normal operations and management anticipates that timetabling and other arrangements for students will operate restriction free during 2022/23. Set in the context of the Covid-19 environment, the college's successful outcomes trend remains positive and above the Scottish average.

Exhibit 8
Successful outcomes - trend analysis 2018/19 to 2021/22

Mode	2018/19	2019/20	2020/21	Scottish average 2020/21	2021/22	2021/22 ROA target
Full-time FE	70.2%	72.1%	73.6%	61.3%	71.1%	75%
Full-time HE	71.7%	74.4%	81.9%	72.1%	79.3%	77%
Part-time FE	81.4%	82.4%	85.2%	76.3%	82.6%	84%
Part-time HE	75.8%	80.0%	76.0%	81.3%	79.4%	84%

Source: SFC: College statistics 2020-21 and Dundee and Angus College 2021/22 annual report and financial statements

Withdrawal rates have increased at the college and across the sector, but the college is actively working to better support students to complete their courses

135. The Scotland's Colleges 2022 report highlights that nationally, before the pandemic, around one in four (24.7%) full-time further education (FE) students failed to complete their college course. The proportion of students withdrawing from courses fell in 2019/20, to around one in five (20.8%) full-time FE students. Withdrawal rates nationally subsequently increased noticeably in 2020/21 (to 27.7%), with fewer full-time FE students successfully completing their course and achieving their intended qualification than before the pandemic. Withdrawals rates for full-time higher education (HE) were 17.7% on average nationally.

136. Dundee and Angus College's full-time FE withdrawals rate of 26.3% was below the national average of 27.7% for 2020/21. Its full-time FE withdrawal rate for 2021/22 increased to 28.8%. Its full-time HE withdrawal rate was 17.9%. This was slightly above the national average of 17.7% for 2020/21. The college's withdrawal rate in this area was 21.3% for 2021/22. At the time of writing, the 2021/22 national data is not available for a direct comparison.

137. The Audit Scotland national report noted that the reasons behind students not completing college courses are wide and varied. National surveys suggest that student poverty, mental ill health, and financial difficulties could be contributing factors.

138. The college's withdrawal rate increased in 2021/22 but this was reflective of the challenging environment in which it was operating. The college has undertaken an extensive amount of work in 2021/22 and put in place additional resources to better support students to complete their courses to help limit further withdrawals. Resources included:

- The creation of a new mental health team leader post to co-ordinate mental health support for students.
- The installation of kitchen facilities at the college's campuses to provide students with access to microwaves and free hot water. This aims to help reduce the impact of food poverty amongst students.
- Its Students Association representatives made over 3,000 support calls to learners identified as being at risk of withdrawing. The representatives identified issues and support needs before liaising with college staff to re-engage learners with their studies.
- The creation of a new Community Partnership strategy and establishment of a College Community Collaborative that has over 30 community and third sector partners. The Collaborative aims to create a clearer route into education and employment for young people.

Good practice

The college has established a range of services to better support students to complete their courses and help mitigate against course withdrawal.

The college is facing student enrolment challenges for 2022/23

139. There has been a drop in demand for places across the college sector. As reported by the SFC in its review of College Statistics 2020/21, the number of enrolments in the sector has continued to fall since peaking at 328,889 in 2018/19.

140. The college reports regularly on recruitment to its Learning, Teaching and Quality Committee. A paper taken to the committee in September 2022 noted that there has been an 14% reduction in applications for full-time places for the 2022/23 academic year. Several factors have contributed to this, including increased competition from apprenticeships, the labour market, and universities allocating additional places to school leavers. These are challenges experienced by colleges nationally.

141. The college has been proactive in tackling these recruitment challenges. It has taken steps to revise and refresh its curriculum to reflect the changing demands of leaners. A recent example of this is its work in developing the curriculum framework for ESports. The college has undertaken a wide range of awareness raising activity and worked with schools in the region, together with ESports Scotland to develop ESports courses and activities. This included running an ESports summer camp in 2022. The college anticipates validation of the course by December 2022.

142. The college's funding is closely linked to student success, retainment, and recruitment rates. Maintaining student recruitment, retention and attainment will be important if the college is to meet its 2022/23 credits target. This has funding implications for the college as substantial reductions in its student numbers would add to its already challenging medium-term financial position.

Appendix 1: Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Financial sustainability challenges The college's Financial Strategy 2022-2027 and 2021/22 Financial Forecast Return highlight considerable financial pressures over the medium-term. **Risk:** The college faces major challenges to remain financially resilient and deliver its objectives sustainably.	Given the scale of the identified financial pressures, there is a need for the college to implement transformational change to ensure it remains financially sustainable in the medium to longer-term. See paragraph 99.	**Action Agreed** The college will continue to lobby for, explore and implement strategies and approaches necessary to remain financially sustainable, recognising that changes to the SFC funding model will be required to enable this. **Responsible Officer** Senior Leadership Team. **Agreed date** July 2023.

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
PY1. Fixed assets register- fully depreciated assets Our review of the asset register identified that there were 182 assets with a nil carrying value. These had a total initial cost of £5.492 million and had been fully depreciated down to zero by 31 July 2021. **Risk:** The cost and accumulated depreciation	Management should review the fixed asset register to identify fully depreciated assets. Appropriate adjustments should be made determined by whether these assets are continuing.	**Ongoing** Management undertook a review in 2021/22. This resulted in adjustments being made to the financial statements. See exhibit 3 issue 1. Alongside the 2022/23 asset valuation exercise, we recommend that management undertake a full

Issue/risk	Recommendation	Agreed management action/timing
balances for Property, Plant and Equipment in the financial statements do not accurately reflect the operational assets of the organisation.		review of asset existence and associated useful lives to ensure the asset register remains accurate. By 31 July 2023.
PY2. Journal authorisation As part of our financial statements testing, it was identified that at the most senior level within the Finance team, there is no requirement for a second member of staff to review or authorise the journals. **Risk:** The ability of staff to approve their own journals increases the risk that invalid, erroneous or fraudulent journals are posted to the financial ledger.	Management should review this approach. All staff, regardless of grade, should have their journals subject to review and authorisation by a second member of staff.	**Closed** A review process has been put in place. Our testing of journals in 2021/22 did not identify any issues. See exhibit 2.
PY3. Revised financial strategy The college's current five-year financial strategy was developed prior to the pandemic. Work is ongoing to revise this. **Risk:** The longer-term financial impact of Covid-19 may make the financial strategy undeliverable.	The college should produce a revised medium-term financial strategy in 2021/22.	**Closed** The college's Board of Management approved its new Financial Strategy 2022-2027 in March 2022. This highlights considerable financial pressures over the medium-term. See paragraphs 87 to 91 for further comment. See also 2021/22 recommendation 1 above.
PY4. Revised estates strategy The college's current estates strategy was developed prior to the pandemic. Work is ongoing to revise this.	The college should produce a revised estates strategy in 2021/22.	**Closed** In September 2022, the Board of Management approved the college's new Infrastructure Strategy. The Strategy sets out projects to be achieved each year up to 2026/27.

Issue/risk	Recommendation	Agreed management action/timing
Risk: 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 successful progress of the college's Infrastructure Strategy is reliant on national capital funding decisions and priorities. If the condition of the college estate deteriorates to the extent that student experience is affected, there is likely to be a reduction in student numbers and success. This would in turn reduce the income received by the college and impact on its financial sustainability. See paragraphs 100 to 108 for further comment.
PY5. Reporting against metrics in the 2025 Strategy There is no single report by which performance is reported against each of the metrics identified in the 2025 Strategy. **Risk:** The Board of Management is not provided with updates which limits its oversight and scrutiny of the 2025 Strategy progress.	The Board of Management should be provided with an annual update which allows for oversight and scrutiny of the metrics within the 2025 Strategy.	**Closed** Members have been provided with an update on the Strategy, including progress with the metrics. See paragraphs 122 to 126 for further comment.

Appendix 2: Wider dimension audit plan risks

The table below sets out the audit dimension risks that we identified in our 2021/22 annual audit plan together with a summary of the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Audit dimension risks

Description of risk	Assurance procedure	Results and conclusions
1. Financial sustainability As is the position across Scotland, the college continues to operate in an increasingly complex and challenging environment. A wide range of financial uncertainties have been further complicated by the ongoing impacts of the pandemic, such as the growing inflationary pressures. The college is developing its Financial Strategy that will cover the period 2022 – 2027, with a draft of this having been considered by the Board of Management in March 2022. The college's ability to implement mitigations described in the Strategy will be impacted by Scottish Funding Council (SFC) decisions relating to funding announcements, the reduction in non-recurring Covid-19 funding and the outcome of any National Pay Bargaining agreements.	Monitor achievements of financial targets. Assessment of the college's Financial Strategy. Review of the college's Financial Forecast Return.	**Results:** The college's new Financial Strategy 2022-27 and its 2021/22 Financial Forecast Return highlight considerable financial pressures over the medium-term. See section 3 of this report for further commentary on financial sustainability. **Conclusion:** As with most public sector organisations, the college will be dealing with the impact of the pandemic for years to come. There is a need for transformational change to help address longer-term financial pressures. See appendix 1 2021/22 recommendation 1.

Description of risk	Assurance procedure	Results and conclusions
Given the level of sector wide uncertainties around future funding and the general economic environment that has arisen following Covid-19, further refinement of the draft Financial Strategy is needed. **Risk:** The college faces considerable challenges to remain financially resilient and deliver its objectives sustainably.		
2. Infrastructure needs assessment and investment Following the return to on-campus learning after the Covid-19 pandemic, any changes in the college's working and learning environment will need to be reflected in its future infrastructure requirement and investment. Whilst student satisfaction results have remained high, the pandemic impacted on the student learning experience, and any change in student needs and expectations will require factoring into investment plans. Maintaining student recruitment, retention and attainment will be important if the college is to meet its 2021/22 credits target. **Risk:** The nature and condition of the infrastructure impacts on the ability of the college to achieve some of the metrics in its 2025 Strategy – More Successful Students, including funding implications arising from any reduction in student numbers.	Review the progress of the metrics aligned to the college's 2025 Strategy - More Successful Students. Review of the college's Infrastructure Strategy.	**Results:** The college has made good progress in achieving the metrics set out in its five-year strategic plan. See paragraphs 122 to 126 for further comment. In September 2022, the Board of Management approved the college's new Infrastructure Strategy. The Strategy sets out projects to be achieved each year up to 2026/27. See paragraphs 100 to 108 for further comment. **Conclusion:** The successful progress of the college's new Infrastructure Strategy is reliant on national capital funding decisions and priorities. If the condition of the college infrastructure deteriorates to the extent that students experience is affected, there is likely to be a reduction in student numbers. This would in turn reduce the income received by the college and impact on its financial sustainability.

Dundee and Angus College
2021/22 Annual Audit Report

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