

Board of Management Audit Committee

Date: 24 November 2015

Time: 2pm

Room: 1074b

A G E N D A

			Presented by
1	Welcome and Apologies		HC
2	Declaration of Interest		HC
3	Minute of Meeting of 22 September 2015	(attached)	HC
4	Matters Arising		HC
5	2014-15 External Audit Annual Report	(attached)	AP
6	2014-15 Financial Statements	(attached)	KH
7	Internal Audit Reports		
7.1	Student Activity Data	(report attached)	LS
7.2	Student Support Funds	(report attached)	LS
7.3	Progress Report	(report attached)	LS
8	Strategic Risk Register	(attached)	JB
9	Any Other Business		
10	Date and Time of Next Meeting - Tuesday 23rd February 2016 at 2pm		

Board of Management

Minute of the Meeting of the Audit Committee of the Board of Management of Dumfries and Galloway College held on 24 November 2015 at 2.00 pm in Room 1074b

Present:	Hugh Carr (Chair) Stuart Martin	Delia Holland Pat Kirby
In attendance:	Carol Turnbull, Principal John Henderson, Chair of F&GP Lindsay-Anne Straughton, RSM Robert Barnett, RSM Jannette Brown, Secretary to the Board and Vice Principal Corporate Services & Governance	Brian Johnstone, Regional Chair Karen Hunter, Finance Manager Jackie Ballard, Grant Thornton Angela Pieri, Grant Thornton

Minute Taker: Caroline Donoghue, Executive Team Assistant

1 Apologies

Apologies were intimated on behalf of Janice Goldie

The Secretary to the Board confirmed the meeting was quorate with enough members present to allow decisions to be made.

2 Declaration of Interest

Members agreed to indicate declarations of interest as appropriate throughout the meeting.

3 Minute of Previous Meeting

The Minute of the Audit Committee held on 22 September 2015 was approved.

4 Matters Arising

There were no matters arising

5 2014-15 External Audit Annual Report

Jackie Ballard and Angela Pieri on behalf of Grant Thornton spoke to the External Audit Annual Report for 2014-15 which had been circulated:

Ms Ballard advised that the new format of the report was governed by requirements from Audit Scotland covering three areas of Finance, Governance and Performance and now includes a new Remuneration Report. The audit report covered the 16 month period from 01 April 2014 to 31 July 2015. Members were advised that the audit was substantially complete with the Remuneration Report and the Letter of Representation still to be included. The Remuneration Report currently has a qualification because the College is awaiting CETV pension information from the Local Government Pension Scheme. No adjustments have been made to the primary statements in the accounts. Both Ms Ballard and Ms Pieri

thanked the Vice Principal, Corporate Services and Governance, Karen Hunter, Finance Manager and the Finance team for all their help and support during the Audit.

The Committee discussed and noted the report. The Committee also recorded its thanks and appreciation of the work of the Finance team through difficult and complex circumstances in 2014/15

6 2014-15 Financial Statements

The Chairman of the Audit Committee asked members to discuss the Financial Statements which had been issued.

Members noted that although a deficit was recorded, the College is performing in line with the budget; no concerns were raised. Ms Ballard confirmed that whilst the College accounts show a deficit this is due to technical accounting adjustments and not because of mismanagement of college finances. Ms Ballard advised the Committee the College is required to move to the full International Financial Report Standards (IFRS) when presenting its financial statements for 2015-16. Ms Ballard offered the services of Grant Thornton to support the College through the changes.

The Chair of the Audit Committee expressed strong objections to the level of personal financial information included in the remuneration report for the Executive Management Team and felt it was excessive and intrusive; members of the Committee supported his views and requested their concerns be reported to the Board of Management at the next meeting. Brian Johnstone, Regional Chair agreed to highlight the Committee's objections at the next Regional Chairs meeting.

Following discussion and assurances given by the Grant Thornton, External Auditors the Audit Committee approved the Financial Statements for recommendation to the full Board of Management at its meeting on the 15th December 2015.

7 Internal Audit Reports

Ms Straughton spoke to the reports which had been issued.

7.1 Student Activity Data

Ms Straughton spoke to the report which had been issued. This report is one of two statutory audits which are required by the Scottish Funding Council. This report is an independent opinion of the accuracy of the Further Education Statutory (FES) return. The Auditors are required to assess the adequacy of the College's systems procedures and controls which underpin the completion of the FES data submitted.

Ms Straughton confirmed there were no issues or management actions raised and the College received a green audit opinion which is the highest rating available.

Members noted the report.

7.2 Student Support Funds

Ms Straughton spoke to the report which had been issued. The audit is a statutory audit reviewing Bursaries, Student Support funds and the Education Maintenance Allowance (EMA). It includes a detailed review of the processes and controls in place relevant to the processing of applications and payments.

Ms Straughton confirmed there were no issues raised. There was one management action raised around the requirement for a separate bank account for Bursary funds. The Finance Manager confirmed that this has already been addressed. The College again received a green audit opinion which is the highest rating available

Members noted the report.

7.3 Internal Audit Progress Report

Ms Straughton spoke to the report which had been issued. The Internal Audit Report for 2015-16 was approved by the Audit Committee and this report gave an up to date overview of the audits completed to date. The report confirmed that there are no findings from the completed audits which require attention.

The Committee considered and noted the contents of the internal audit reports.

The committee congratulated the Principal and her staff on the positive reports from the internal auditors.

8 Strategic Risk Register

The Vice Principal, Corporate Services and Governance spoke to the report which had been issued. The Vice Principal advised that there were no new risks added to the register since the last meeting. The Principal and Executive Management Team have reviewed the Risk Register and have increased the risk rating in relation to the lack of flexibility of the College to manage financial and estates issues and the need to use funding from College's foundation for development within the college.

The Committee considered and approved the Strategic Risk Register.

9 Any Other Business

None

10 Date and Time of Next meeting

The next meeting of the Committee would take place on Tuesday 23 February 2016 at 2pm

14 Good Governance

The Chair asked members of the Executive Team and the Finance Manager to withdraw from the meeting in order for the Committee to meet privately with internal and external auditors.

The Chair sought feedback from external and internal auditors on any matters that they wished to raise without staff present. Both reported on strong and positive relationships with staff, and complimented them on the quality of cooperation received and working papers provided for audit. Neither raised any concerns or criticisms of management or staff.

Board of Management

Minute of the Meeting of the Audit Committee of the Board of Management of Dumfries and Galloway College held on 22 September 2015 at 2.00 pm in Room 2009

Present: Hugh Carr (Chair)
Delia Holland
Janice Goldie

In attendance: Carol Turnbull, Principal
Jannette Brown, Secretary to Board and Vice Principal (Corporate Services & Governance)
Karen Hunter, Finance Manager
Lindsay-Anne Straughton, Baker Tilly
Angela Pieri, Grant Thornton

Minute taker: Caroline Donoghue, Executive Team Assistant

1 Apologies

Apologies were intimated on behalf of Stuart Martin and Pat Kirby

The Secretary to the Board confirmed the meeting was quorate with enough members present to allow official decisions to be made.

2 Declaration of Interest

Members agreed to indicate declarations of interest as appropriate throughout the meeting.

3 Minute of Previous Meeting

The Minute of the Audit Committee held on 12 May 2015 was approved.

4 Matters Arising

There were no matters arising

5 Internal Audit Reports

Lindsay-Anne Straughton on behalf of Baker Tilly spoke to the Internal Audit Reports which had been circulated:

5.1 Payroll Audit

Ms Straughton spoke to the report which had been issued. The audit of payroll procedure in place at the College was undertaken as part of the approved internal audit plan for 2014-15. The audit looked at policies and procedures regarding the payroll system; staff training; making additions to the payroll system and any other amendments to the system. There was only one recommendation for action arising from this report: a regular check on information between the payroll and the HR system. The Chair confirmed that this was carried out in April of this year and the Vice Principal, Corporate Services and Governance confirmed that the reconciliation points for the College will be September and February.

5.2 Internal Audit Strategy 2015/16 – 2016/17

Ms Straughton spoke to the report which had been issued. The draft strategy was presented to the Committee at the last meeting in May and there were no amendments to the report made other than date changes to some of

the reviews. The Vice Principal, Corporate Services and Governance advised that the audit plan will need to be aligned with the College's new Strategic Plan.

5.3 Internal Audit Progress Report

Ms Straughton spoke to the report which had been issued. The first report of 2015-16 gave an overview of the audits which have been agreed for the year. Ms Straughton advised of a change to the name and branding in Baker Tilly, there is no change in company or personnel.

The Committee considered and noted the contents of the internal audit reports.

6 Internal Audit Report 2014-15

Ms Straughton spoke to the report which had been issued. This report covers a longer period than normal to realign with the change in the financial year end; covering the period 01 April 2014 to 31 July 2015. The Head of Internal Audit Opinion stated that for areas covering Governance; Risk Management; Internal Control and Value for Money, the college has been rated as 'Adequate and Effective'. This is the highest rating available.

The committee was pleased to receive such a positive report and conveyed its congratulations to the Principal and her staff for their work.

7 Draft Annual Audit Committee Report (for the period April 15 to July 15)

The Vice Principal, Corporate Services and Governance spoke to the report which had been issued. This report is a summary of the activity throughout 2014-15. When reporting to the Board of Management at the next Board meeting on 06 October 2015, a statement will be issued to say that in the Audit Committee's opinion they can have assurance in the level of controls in the College.

The Committee considered and approved the report. The report will now go forward to the full board.

8 Strategic Risk Register

The Vice Principal, Corporate Services and Governance spoke to the report which had been issued. Following the implementation of the College's new Strategic Plan all risks have been reviewed to align with the plan. In accordance with the College's Risk Management Policy any risks which have impacts on strategic outcomes must have mitigating controls in place. Any risks with an inherent rating of 12 or above must have mitigating controls in place and where the residual rating remains above 12 should be reviewed at least quarterly in order to identify if any further actions could be taken to reduce the residual rating to below 12. There were only two residual risks rating higher than 12, national pay bargaining and public sector funding cuts. The College is planning to undertake scenario planning in relation to potential public sector funding cuts.

The Committee considered and approved the risks on the register. The Register will now be recommended to the Board.

9 Anti Fraud and Corruption Policy

The Vice Principal, Corporate Services and Governance spoke to the reviewed policy which had been issued. It was noted that the policy cover staff and students only, Board Members are covered by the Board's Code of Conduct. Members discussed the contents of the policy and agreed it should also include offences covered by the Bribery Act 2010.

The Committee approved the policy, recommending it to the Board for adoption.

10 Whistleblowing Policy

The Vice Principal, Corporate Services and Governance spoke to the reviewed Policy which had been issued. Members discussed the contents of the policy and agreed it should specifically mention the process for students should follow.

The Committee approved the policy, recommending it to the Board for adoption.

11 Challenge to Lennartz ruling

The Vice Principal, Corporate Services and Governance spoke to the report which had been issued. The report updated members on recent developments which may impact on the College's Lennartz agreement with HMRC.

The Committee discussed the contents and noted the report.

12 Any Other Business

None

13 Date and Time of Next meeting

The next meeting of the Committee would take place on Tuesday 24 November 2015 at 2pm in room 2009

14 Good Governance

The Chair asked members of the Executive Team and the Finance Manager to withdraw from the meeting in order for the Committee to meet privately with internal and external auditors in accordance with the Code of Good Governance for Scotland's Colleges.

There was a brief discussion between Committee members and the internal and external auditors; no issues requiring any action were identified.

The outcome of this meeting will be included in the Annual Audit Committee Report for 2014-15.

Dumfries and Galloway College

Annual Report to the Board of Management and the Auditor General for Scotland 2014/15 (sixteen months ending 31 July 2015)

November 2015



Executive Summary

Overall summary for the College

Financial statements

- The 2014/15 audit covers a 16 month period for 1 April 2014 to 31 July 2015.
- The requirement for a Remuneration Report is new for 2014/15. The College is awaiting information for the pension disclosures within the Report. At this stage we anticipate issuing a qualified opinion on the Remuneration Report due to this issue. We will update management and those charged with governance when further information is received.
- Subject to the satisfactory completion of the audit, other than the qualified above on the Remuneration Report, in all other aspects we aim to give an unqualified opinion on both the financial statements of the College and on the regularity of transactions undertaken for the 2014/15 financial year.
- The draft financial statements and supporting working papers were provided at the start of the audit. Working papers were a good quality, and queries were responded to promptly. The Remuneration Report was not available at the start of the audit, but was provided during the course of the audit.
- Our work identified no adjustments within the primary financial statements. Any audit adjustments identified were minor and in presentation only to disclosure notes to improve readability. Management have made all suggested adjustments in the final version of the financial statements.
- We operate a risk based approach when planning our audit work and focus our audit effort on the areas with the highest risk. As part of our plan we identified two presumed significant risks of management override of controls and the risk of fraudulent transactions within tuition fee revenues. We also identified reasonably possible risks of the understatement of operating expenses and employee remuneration. We have carried out a review of the control environment for each of the systems and substantively tested the balances in the accounts with no issues arising from this work.
- We applied overall materiality of £0.262 million to the financial statements.
- We have reviewed key judgments made by management and disclosure of accounting policies and found all policies to be in line with Statement of Recommended Practice (SORP) requirements.

Governance

- The College reported through their Statement of Corporate Governance and Internal Control that there were adequate governance processes in place during 2014/15. Our audit work supports this assessment.
- We have reviewed the processes and procedures for preparing the Statement of Corporate Governance and Internal Control to ensure compliance with the Scottish Funding Council (SFC) requirements and in accordance with the 'Code of Good Governance for Scotland's Colleges'. We found the assurance arrangements to be well structured.
- During 2014/15 the College transferred £0.018 million to the arms length foundation trust 'Scottish Colleges Foundation'. We reviewed the arrangements in place to satisfy ourselves with the governance arrangements and independence of any transactions the College makes. We are satisfied that the Trust is independent from Dumfries and Galloway College.
- Risk Management policies were in place in 2014/15 and were deemed to be reasonable and appropriate by the Board of Management with regular update and scrutiny by the Audit Committee.
- Key elements of the College's governance framework include a Board of management and a range of Committees, including the Audit Committee. Key governance procedures include appropriate policies to prevent and detect fraud and corruption and policies on anti money laundering and 'whistleblowing'.
- The College reported no incidents of fraud during 2014/15.

Performance

- 'The Vision 2020' sets out the strategic themes, priorities and objectives for the College. This is underpinned by the strategic outcomes in the Scottish Funding Council Agreement 2014/15 to 2015/17 which is updated annually.
- The College reported a deficit position of £0.502 million in the 2014/2015 financial statements. £0.296 million of the deficit is due to 'technical' accounting requirements regarding the use of depreciation. The balance sheet has net assets of £31.778 million including a net pension liability of (£5.219 million).
- The most significant element of running costs is staff costs which accounts for 57% of running costs. This is a key performance indicator that is monitored closely.
- In accordance with Scottish Funding Council requirements, the College monitors and reports progress on national priorities regularly. This includes trend analysis and sector average comparisons.
- The College nearly achieved their targeted weighted student numbers for the 2014/15 academic year with 42,423 units against a target of 42,529 (0.0025%).
- We are required to complete an Audit Scotland questionnaire to inform the 2016 'Scotland's Colleges' report. The overarching theme is financial capacity which covers financial planning and performance, severance, governance and transparency.

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1. Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of Dumfries and Galloway College for 2014/15.

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

Introduction

Purpose of this report

The Auditor General for Scotland appointed Grant Thornton UK LLP as auditor of Dumfries and Galloway College ('the College') for the 5 year period 2011/12 to 2015/16. This appointment is made under the Public Finance and Accountability (Scotland) Act 2000.

Our annual audit report is addressed to those charged with governance at the College, and the Auditor General for Scotland. The report summarises our opinion and conclusions on significant issues arising from our audit. The scope of our audit work was set out in our Audit Plan, which was presented to the Audit Committee on 12 May 2015.

The College's responsibilities

It is the responsibility of the College and the Accountable Officer to prepare the financial statements in accordance with the Statement of Recommended Practice: accounting for further and higher education (the SORP) and the Accounts Direction issued by the Scottish Funding Council (the Accounts Direction).

This means the College must:

- prepare financial statements which give a true and fair view of the financial position of the College and its income and expenditure for the period to 31 July 2015
- maintain proper accounting records which are up to date
- take steps to prevent and detect fraud and other irregularities.

The College is also responsible for establishing proper arrangements to ensure that:

- public business is conducted in accordance with the law and proper standards
- public money is safeguarded and properly accounted for
- economy, efficiency, effectiveness and Best Value is achieved in the use of resources.

Our responsibilities

It is a condition of our appointment that we meet the requirements of the Code of Audit Practice ('the Code') which was published in May 2011, and is approved by the Accounts Commission and the Auditor General for Scotland.

The Code highlights the special accountabilities that are attached to the conduct of public business and the use of public money. This means that audits in the public sector audit must be planned and undertaken from a wider perspective than the private sector. Our responsibilities are outlined in **Figure 1**.

We are required to provide an opinion on the financial statements and Statement of Corporate Governance and Internal Control. Under the Code we are also required to review and report on the governance arrangements.

Under the requirements of the International Standard of Auditing (UK and Ireland) ('ISA') 260: Communication with those charged with governance, we are required to communicate audit matters arising from the audit of the financial statements to those charged with governance. This annual report to the College, together with previous reports to the Audit Committee throughout the year, discharges our ISA 260 commitments.



Acknowledgements

We would like to take this opportunity to record our thanks for the assistance provided by the Vice Principal – Corporate Services & Governance, the Finance Manager and the finance team during the course of our work.

Figure 1: Our responsibilities under the Code of Audit Practice

Financial Statements



Provide an opinion on:

- whether the financial statements provide a true and fair view of the financial position of the College
- whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of expenditure and income

Corporate governance



Review and report on the College's corporate governance arrangements as they relate to:

- the College's corporate governance and systems of internal control, including reporting arrangements
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption

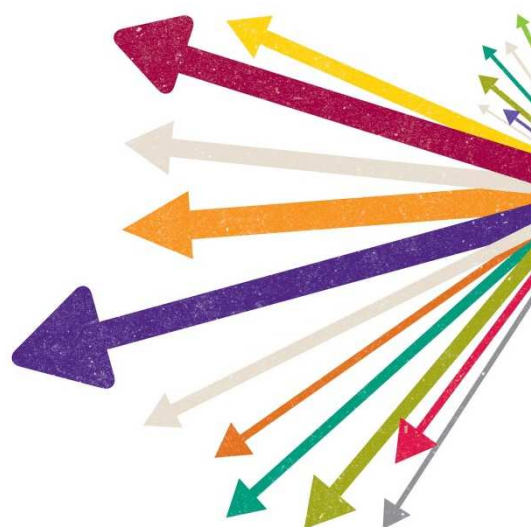
Performance



- The Public Finance and Accountability (Scotland) Act 2000 gives the Auditor General the right to initiate examinations into the economy, efficiency and effectiveness with which the College and other public bodies have used their resources to discharge their functions.
- In accordance with guidance issued by Audit Scotland, auditors may be requested to participate in a performance audit, an examination of the implications of a particular topic for the College at a local level or a review of the College's response to national recommendations. In 2014/15 we have completed a baseline assessment of the financial capacity at the College

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.



2. Financial statements



Financial Statements

Introduction

Within this section of the report, we present our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan on 12 May 2015.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the Remuneration Report
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

Our Review of the Financial Statements

The draft financial statements and supporting working papers were provided at the start of the audit and queries were responded to promptly. The working papers were prepared to a good standard. A remuneration report was a new requirement for 2014/15, and this was provided for audit during the course of the audit, but we are currently awaiting calculations for the pension disclosure notes as well as the median pay calculation.

As part of our work on the financial statements we are required to review the narrative elements of the financial statements (including the Operating and Financial Review, the Statement of the Board of Management's Responsibilities and the Statement of Corporate Governance and Internal Control). We review the narrative elements of the financial statements for compliance with required SORP disclosures, for consistency with other areas of the financial statements and our knowledge of the client.

We have reviewed the narrative commentary against the requirements of the SORP which resulted in only minor disclosure adjustments being made to improve readability.

Financial Statements Opinion

Our work identified no adjustments to the primary financial statements. Any audit adjustments identified were minor and in presentation only and are listed at Appendix E. Management have made all suggested adjustments in the final version of the financial statements.

Work is on-going on the Remuneration Report. There have been difficulties nationally in obtaining information for the relevant pension disclosures within the statement. We are expecting to issue a qualified opinion paragraph in relation to the pension disclosures within the Remuneration Report, because the College was late in requesting the information and has not been able to include them. We are also awaiting the College's median pay disclosure calculations.

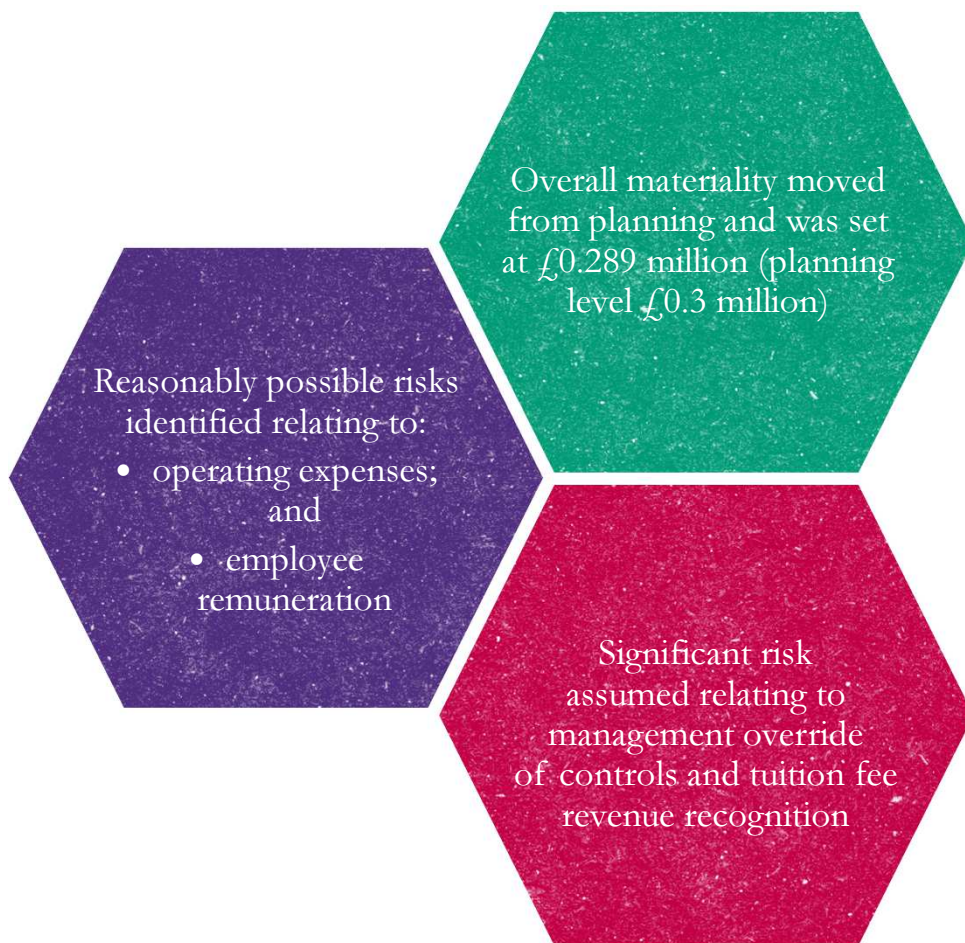
Subject to the satisfactory completion of our outstanding testing, in all other aspects other than the qualified paragraph about the pension disclosures in the Remuneration Report, we intend to give an unqualified opinion on the rest of the financial statements of the College.

We confirm there were no unadjusted misstatements in the audited financial statements.

Regularity

We did not identify any instances of irregular expenditure or non-compliance with laws and regulations.

A summary of our audit plan relating to financial statements



A reminder of our approach

Scope of the Audit

We operate a risk based audit approach. The starting point for our audit was to consider the inherent risks to the College and how these may result in a material misstatement in the accounts. We identified two significant risks and two reasonably possible risks which have been outlined at **Table 1** and **Table 2**. Systems linked to those areas where we had identified a risk were subject to increased audit focus including consideration of the control environment, in particular whether the systems were operating effectively.

We conduct a range of audit procedures across all balances above performance materiality, including analytical review, agreement to third party confirmations and sample testing. Throughout the audit we have tailored the level of procedures to take account of the level of assessed inherent risk.

We also consider all disclosures in the financial statements and ensure compliance with the SORP, the Accounts Direction and whether disclosures are consistent with the information gathered from our audit work.

We did not identify any new areas of risk or change our approach over the course of the audit.

Application of Materiality

We outlined in our audit plan that we had set materiality at the College in line with ISA 320.

The primary focus of the College is to provide educational services through the use of public funds. We therefore set the overall materiality using gross expenditure as a benchmark. We established planning materiality at 2.0% of the 2013/14 gross expenditure (adjusted to reflect the change in period length from 8 months to 16 months), which resulted in overall materiality of £0.423 million.

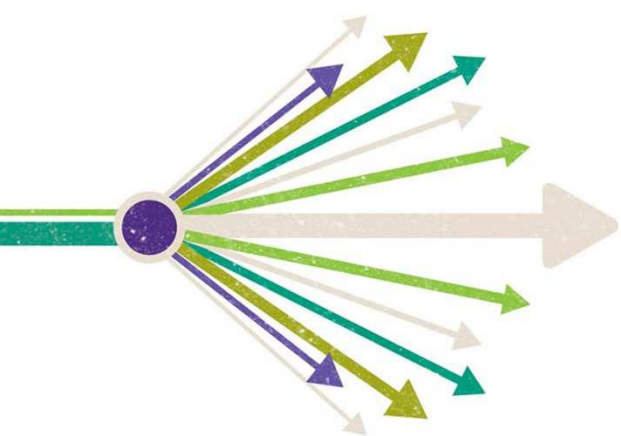
In addition to overall materiality we also establish a level for performance materiality, which as defined by ISA 320 is the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

We set our performance materiality at 75% of materiality which gave a measure of £0.317 million for the College.

We reviewed the levels of materiality at the fieldwork stage to establish whether this would have a significant impact on the materiality to be applied. The levels of materiality were revised from the planning materiality outlined due to movements in the benchmark figure. The revised overall materiality level applied is £0.35 million, which results in performance materiality of £0.262 million.

In addition to the guidance on materiality in ISA320, ISA 450 requires the auditor to accumulate and report misstatements identified during the audit, other than those that are clearly trivial. For the purposes of this audit we have set trivial at £0.017 million.

Items which were considered material by nature (e.g. cash and remuneration report disclosures) were subject to a higher degree of audit scrutiny.



Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Table 1: Significant Risks identified at the planning stage

Risks identified in our audit plan	Work completed	Assurances and issues arising
<p>1 Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management Testing of journal entries Review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>
<p>2 The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the College, we determined the risk of fraud arising from revenue recognition is present for Tuition Fee Revenue but can be rebutted for Grant income and Other Income. The reason behind our rebuttal of the risk is</p> <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of further education bodies, including the College, mean that all forms of fraud are seen as unacceptable. <p>The most significant area of revenues were SFC grant funding totalling £14.042 million, and £0.569 million other. We have substantively tested grant funding to award letters and other income to receipt.</p> <p>We conducted statistical sampling of tuition fee revenues, resulting in a sample size of 24 transactions for testing.</p>	<p>Our work confirmed that revenue had been recognised appropriately in the financial statements.</p>



Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty

(ISA (UK&I) 315).

Audit findings against reasonably possible risks

Reasonably possible risks are, in the auditor's judgement, other risk areas which they have identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement is lower than that for a Significant Risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Table 2: Reasonably possible risks identified at the planning stage

Transaction cycle	Description of risk	Work completed	Assurances gained and issues arising
Operating Expenses	<p>Operating Expenses/ Creditors are understated</p> <p>The College incur expenditure to provide educational services within the Dumfries and Galloway area. In 2014/15 the other operating costs (this does not include employee, capital and financing costs) of providing these services was £6.002 million.</p> <p>From 1 April 2014 the College became a body under the central government budgeting boundary. As a central government body there is increased pressure to report a balanced budget for the financial year.</p>	<p>We gained assurance over the risk through:</p> <ul style="list-style-type: none"> • Documentation, identification and walkthrough of the processes and controls in operation over purchase ordering, general payment and recording of expenditure. • Review of accounting estimates, judgments and understanding of the accruals accounting process. • Reconciliation of the creditors subsystem to the general ledger and financial statements. • Judgmental sampling of 15 post year end transactions for unrecorded liabilities. 	<p>Our audit work has not identified any misstatement of operating expenses from the testing carried out.</p> <p>The control environment was considered to be operating effectively with adequate controls in place.</p>
Employee remuneration	<p>Employee remuneration accruals understated</p> <p>Employee costs accounted for 57% of expenditure in 2014/15 at £9.878 million. There are a large number of transactions processed throughout the year and the College relies on numerous controls including monthly reconciliations and segregated duties to ensure that the employee costs are recorded correctly in the financial statements.</p>	<p>We gained assurance over the risk through:</p> <ul style="list-style-type: none"> • Documentation, identification and walkthrough of the processes and controls in operation for payment of staff. • Judgmental sample testing of 25 staff members to HR system, recalculation of employer costs and review of any year end accruals. • Trend analysis to analytically review payroll expenses in comparison to expectations and investigate any significant variances. • Reconciliation of the payroll subsystem to the general ledger and financial statements. 	<p>Our audit work has not identified any misstatement of employee remuneration from the testing carried out.</p> <p>The control environment was considered to be operating effectively with adequate controls in place.</p>

Accounting estimates and significant judgments

Assessment

- Marginal accounting policy which could potentially attract attention from stakeholders
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgments made and included with the College's financial statements.

Table 3: Accounting estimates and significant judgments

Accounting area	Summary of policy	Our comments	Our assessment
Revenue recognition	<ul style="list-style-type: none"> • Main annual recurrent grant income: recognised in the period they are receivable to match performance • Other Income: recognised in proportion to the extent the completion of the contract or service concerned. • Deferred grants: Income for the acquisition or construction of fixed assets are deferred and recognised in line with the depreciation over the life of the asset. 	<ul style="list-style-type: none"> • The revenue recognition policies are appropriate under the Government Financial Reporting Manual (FRoM). • The disclosure in the draft accounts was found to be reasonable and in line with prior years. 	●
Property, Plant and Equipment	<ul style="list-style-type: none"> • The fair value of all land and buildings is assessed by performing a full valuation at least every five years. An annual review of impairment is carried out in-between full valuations. • Buildings are depreciated on a straight line basis over their expected useful lives up to 60 years. Other assets have a range of useful lives up to 10 years. • Additions to assets over £10,000 are capitalised. 	<ul style="list-style-type: none"> • The revaluation programme is deemed to be reasonable. A full revaluation was undertaken during 2014/15 for the period ended 31 July 2015 by external valuers. Experts were also used to assess the revenue and capital implications of the new restaurant capital project in the Dumfries campus. • Depreciation and capitalisation policies are considered to be reasonable and in line with the SORP. • We have no issues we wish to highlight. 	●
Pension fund valuations and liabilities	<ul style="list-style-type: none"> • In accordance with Financial Reporting Standards the College is required to account for retirement benefits when it is committed to giving them. This involves recognition in the Balance Sheet of the College's share of the net pension liability together with a pension reserve. • Estimation of the net liability to pay pensions depends on a number of complex judgments. Actuaries are engaged to provide the College with expert advice about the assumptions to be applied. 	<ul style="list-style-type: none"> • We have reviewed the accounting policies and confirmed they are in line with the guidance in the SORP and Financial Reporting Standard (FRS) 17. • We have reviewed the competence, capability and objectivity of Hymans Robertson who have been used as management's expert in year. • We have relied on our internal actuary team to provide assurance over the reasonableness of assumptions and judgments used by Hymans Robertson in determining the FRS17 estimations for the College. • We review the financial inputs the Actuary was provided for reasonableness. • We have no issues which we wish to highlight. 	●
Holiday Pay Accrual	<ul style="list-style-type: none"> • As a result of the reclassification of the College to a central government body there is a requirement to include an accrual for holiday pay in line with the requirements of the Government Financial Reporting Manual (the FRoM). 	<ul style="list-style-type: none"> • The College adopted this early and included holiday pay accruals within the 2013/14 financial statements, therefore procedures were already embedded to support the 2014/15 calculation. • We reviewed the calculation methodology for the holiday pay accrual. • We considered key assumptions used by the College and reviewed for appropriateness. • We have no issues we wish to highlight. 	●

Accounting estimates and significant judgments continued

Assessment

- Marginal accounting policy which could potentially attract attention from stakeholders
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Table 3 continued: Accounting estimates and significant judgments

Accounting area	Summary of policy	Our comments	Our assessment
Provisions	<ul style="list-style-type: none"> Recognised when there is a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 	<ul style="list-style-type: none"> The College has provisions, mostly for early retirement pension costs. .We have no issues we wish to highlight. 	●
Other Accounting Policies	<ul style="list-style-type: none"> We have reviewed the College's policies against the requirements of the SORP, accounting standards and the Accounts Direction. 	<ul style="list-style-type: none"> Disclosures were in line with expectations and considered reasonable. 	●

Other areas of audit focus

Internal controls

We update our understanding of the College's operations and key financial controls systems each year and tailor our audit strategy to focus on key risk areas.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. During our interim audit, we conducted testing on the following areas:

- tuition fee revenues
- operating expenses
- employee remuneration
- IT control environment.

We did not identify any significant deficiencies or material weaknesses arising from our testing of the systems above. Overall, the results of our interim testing confirmed that there is a sound system of internal control covering key financial systems operated by the College.

Going Concern

The College has prepared its accounts on a going concern basis. We have considered this and obtained assurance over going concern through:

- review of financial factors including levels of assets, liabilities, arrears and operating cash flows
- review of financial forecasts and the assumptions which underpin the forecasted figures.

Related Parties

The College is required to disclose material transactions with bodies that have the potential to control or influence the College or to be controlled or influenced by the College.

In year the College disclosed its related party disclosures. The SFC recurrent grant income is already disclosed separately within the financial statements.

We have used computer aided audit techniques to search for material undisclosed related party transactions. From this testing we did not find any related party balances which had not been disclosed in the figures above or elsewhere in other disclosures in the financial statements.

Remuneration Report

The FReM requires that all bodies under central government prepare a Remuneration Report. Each year the Cabinet Office release guidance outlining the disclosures which are required in remuneration reports such as:

- salary information for the senior management team
- pension information for the senior management team
- the median remuneration of all staff and the ratio between this and the mid-point of the highest paid director.

This is the first year the College has been required to prepare such information. The Remuneration Report was provided by the College during the audit and was not available at the start of the audit, mainly due to delayed receipt of information for pension disclosures and interpretation of who was deemed as 'senior officers'.

There has been difficulty nationally in producing the information for the pension disclosures. The College is awaiting information for the pension disclosures within the Report. At this stage we anticipate issuing a qualified opinion on the Remuneration Report due to this issue. We will update management and those charged with governance with any further updates when information is received.

We are also awaiting the College's median calculations. Some other adjustments were noted to disclosures within the Remuneration Report. Further information is provided at Appendix E.

3. Governance



Governance

Statement of Corporate Governance and Internal Control

The College reports compliance with the UK Corporate Governance Code with the elements that applicable to be applied in a public sector further education setting. Our audit work supports this assessment.

Some minor changes were made to update the statement during the course of the audit by management to reflect the most up to date information.

We have reviewed the processes and procedures for preparing the Statement of Corporate Governance and Internal Control to ensure compliance with the Scottish Funding Council (SFC) requirements and in accordance with the 'Code of Good Governance for Scotland's Colleges'. We found the assurance arrangements to be well structured.

Review of Governance and Scrutiny arrangements

Key elements of the College's governance framework include a Regional Board, Board of management and a range of Committees, including the Audit Committee. Key governance procedures include appropriate policies to prevent and detect fraud and corruption and policies on anti money laundering and 'whistleblowing'.

As part of our annual audit process we are required to review the governance arrangements in place at the College. The College operates a Regional Board, Board of Management supported by six key committees:

- Human Resources Committee
- Selection and Appointments Committee
- Remuneration Committee
- Audit Committee
- Finance and General Purposes Committee
- Learning and Teaching Committee

The Board of Management has delegated responsibility for scrutiny to the Audit Committee. Formal terms of reference for all Committees were reviewed during 2014/15.

Risk management

The College's Statement of Corporate Governance and Internal Control discloses its approach to risk management. The College has risk registers in place at corporate, directorate and service level. Risks are reviewed regularly with the work of the senior management team. Risks are reported to both the Board and the Audit Committee.

Risk Management policies were in place in 2014/15 and were deemed to be reasonable and appropriate.

Key areas of risk that remain on the College's corporate risk register are in the following themes:

- External financial environment
- Diversify income streams
- Changes to the funding model
- Capital funding
- Student achievement and attainment
- Demand for student support.

Internal Audit

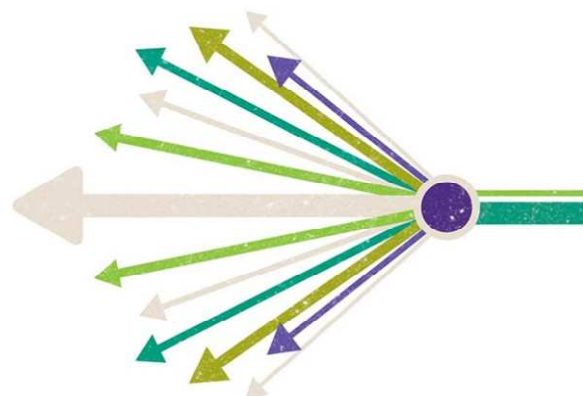
The College's internal audit function is provided by Baker Tilly, an external firm of accountants. Internal audit provide an annual opinion to the Audit Committee on the assurance framework. In 2014/15 they issued the following opinion:

"For the 1 April 2014 to the year ended 31 July 2015, based on the work we have undertaken, our opinion details the adequacy and effectiveness of your organisation's governance, risk management, control and Value for Money arrangements".

The internal audit reports throughout the year highlight an adequate level of compliance. From all of the Internal Audit work carried out only one of the recommendations made was scored as 'high'. Action has been taken by management to implement the recommendation.

In 2015/16, the internal auditors will focus on areas including:

- Procurement
- Human Resources Effectiveness
- Budgetary Control
- Strategic and Financial Planning
- Student Support Funding and Education Maintenance Allowance
- Student Activity Data.



Prevention and Detection of Fraud and Irregularity

The integrity of public funds is a key concern for the organisation and for auditors. As external auditors, we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.

The College reviewed its fraud prevention/whistleblowing policy during 2014/15 as part of the annual process on the reporting of fraud and whistleblowing. No significant changes were made to the policy.

The College reported no incidents of fraud during the 2014/15 period.

Arrangements for maintaining Standards of Conduct and detection of corruption

In line with the Ethical Standards in Public Life etc (Scotland) Act 2000, the College has established a Code of Conduct for Board Members, which was approved by Scottish Ministers. A register of interests is available for each Board member on the College's website, and declarations of interest are made at each committee meeting.

Arm's length foundations for colleges (ALFs)

The Scottish Government budget regulations limit the Colleges ability to carry cash reserves and retain surpluses. In order to mitigate the impact of the reclassification the Scottish Government approved the following actions prior to 1 April 2014:

- establishment of a college sector umbrella foundation
- establishment of a separate foundation for each college, as required
- transfer of colleges cash-backed reserves and on-going surpluses to the above foundations.

The College elected to transfer to the ALF 'Scottish Colleges Foundation'.

A critical element in establishing the ALF was ensuring they could be shown to be independent of the College so transfers of reserves would be outside the Scottish Government budgeting boundary.

During 2014/15 the College transferred £0.018million to the ALF and received £1.492 million in funding for the new restaurant development at the Dumfries Campus.

A key risk is that over time it becomes apparent that the ALF is not independent of the College, which results in consolidation of the ALF financial statements into the College group. We reviewed the arrangements in place to satisfy ourselves with the governance arrangements and independence of any transactions the College makes. We are satisfied that the Trust is independent from Dumfries and Galloway College. This will continue to be an annual consideration of both the College and external auditor.



4. Performance



Performance

Development of the Strategic Plan

The College's 'Vision 2020' sets out the strategic themes, priorities and objectives for the College. This is underpinned by the strategic outcomes in the Scottish Funding Agreement 2015/17 which is updated annually and sets out the College's annual priorities.

The agreement is underpinned by five outcomes which have been agreed with the Scottish Funding Council and therefore contribute to the Scottish Government's National Performance Framework and strategy for creating a smarter Scotland.

- To deliver an efficient regional structure to meet the needs of the Region
- To contribute to meeting the national guarantee for young people
- To ensure students are qualified to progress through the system in both an efficient and flexible manner
- To ensure students are qualified and prepared for work and to improve and adapt the skills of the region's workforce
- To secure, well managed and financially and environmentally sustainable colleges.

As part of this plan the College has identified key tasks for 2014/15 with a focus on partnership working, employer engagement and on-going curriculum review and development. There are clear timelines outlined in the plan with identified targets for delivery and performance indicators.

We will continue to monitor the College's progress against the outcome agreement targets as part of our audit process.

Performance reporting

The College use a range of targets and key performance indicators (KPIs) to monitor performance. Performance is monitored by the Board of Management and senior management team throughout the year.

The Report and financial statements summarises performance against the College's main KPIs for the year. In accordance with SFC requirements, the College monitors and reports progress on national priorities regularly. This includes trend analysis reporting and sector average comparisons.

The KPI's selected were agreed by the College as most relevant and targets were set and reviewed on an on-going basis. The College achieved 99.75% of its targeted weighted student numbers for the 2014/15 academic year, with a delivery of 42,423 units against a target of 42,529 units.

The College monitors courses targets for early withdrawal, further withdrawal, partial success and learner success. These are split across both further and higher education courses, and across full and part-time study. The College set higher targets in all of these indicators in 2014/2015 when compared to 2013/14. The targets are reviewed regularly and they are challenging.

Scotland's Colleges 2015

The Auditor General published a report on the college sector in April 2015. This report focused on the reform in the College sector following the regionalisation process and the financial standing of the college sector.

Key messages from the report are:

- Scotland's colleges have faced significant changes over the past few years, which have had implications for funding, delivery and how colleges are run, managed and scrutinised. It is too early to fully assess how these will affect how colleges perform and the quality of learning, as many of the changes are still taking place.
- The Scottish Government's reform programme has led to college mergers, and the number of incorporated colleges reduced from 37 in 2011/12 to 20 in 2014/15. Planning for mergers was generally good and all the merged colleges were established on time. The College provided guidance, support and challenge.
- The Scottish Government and the College expect the reform programme to deliver a number of high level benefits, including reduced duplication, improved engagement with employers, better outcomes for students and financial savings of around £50 million each year from 2015/16. A large proportion of the savings has come from reductions in staff, with the biggest reduction being teaching staff costs. However, it is unclear what savings have been achieved in addition to reduced staff costs.
- Colleges continued to meet targets for learning, providing around 76 million hours of learning in 2013/14. Regular student surveys and merger evaluation feedback from the College indicate that changes to date have not adversely affected students.
- Recent changes have made it more challenging for colleges to plan and forecast their longer-term financial position. However colleges need to develop longer term financial planning to ensure they consider and plan for the future needs of their region.

Audit Scotland data return

We are required to complete a data return to inform the 2016 Scotland's Colleges report. The overarching theme is financial capacity. This covers the areas of:

- financial planning and performance,
- severance
- governance,
- transparency.

This work is on-going on the data return will be agreed with management and submitted to Audit Scotland at the same time as the audited financial statements.

Running Cost Expenditure

The financial period for the 2014/2015 accounts is sixteen months, so the comparators for 2013/2014 are for an eight month period.

During 2014/15, the College spent just under £17.5 million on running costs. £9.5m of this related to staff costs.

Like most public sector bodies the College has been working to match expenditure to income levels. A deficit of £0.502 million was the overall position for 2014/2015 after the transfer to the ALF of £0.018 million.

£0.296m of the deficit is due to 'technical' accounting requirements regarding the use of depreciation.

The most significant element of running costs is staff costs which account for 57% of running costs. This is a key performance indicator that is closely monitored.

Financial Position

The College's statement of financial position reflects a £3.5 million reduction in reserves during 2014/15 from £35.3 million to £31.8 million. The main reasons for this change are;

- £1.8 million reduction in fixed assets due to downward revaluation
- £1.3 million increase in the actuarial pension liabilities

Table 4: Statement of Financial Position

	Year ended 31 July 2015 (£m)	Year ended 31 March 2014 (£m)
Non-current assets	37.953	40.521
Current assets	2.460	3.128
Non current liabilities	(6.760)	(5.862)
Current liabilities	(1.875)	(2.464)
Total net assets	31.778	35.323

Source: Dumfries and Galloway College Report and Financial Statements 2014/15

ONS reclassification

The Office of National Statistics (ONS) reclassification of Further Education Colleges to central government bodies came into force from 1 April 2014. This meant that in 2014/15 there was a requirement for the financial statements to comply with the Government Financial Reporting Manual (FReM).

This has resulted in a significant number of accounting implications and additional reporting requirements both in the financial statements as well as an increased cycle of reporting to SFC.

The College has managed to balance the increased cycle of reporting well, as well as successfully implementing the change of financial year end from March back to the end of the academic year end in July.

IFRS Conversion – 2015/2016

Full International Financial Reporting Standards (IFRS) conversion is applicable from 2015/16 with the issue of the new HE/ FE Statement of Recommended Practice (SORP) based on FRS 102.

This will also require comparative figures to be prepared for the opening balance at 1 April 2014 and 31 July 2015. The College continues to consider the implications of this decision and how this can be managed to deliver the changes.

The College has started work on IFRS conversion and has a timetable and Plan of key issues for conversion. A number of changes to the presentation of the financial statements will be required.

Key changes include;

- the use of the performance model for accounting for non government capital grants
- assessment of service concessions to on-balance sheet.

Funding methodology – 2015/2016

The basis for funding is changing in 2015/2016. WSUM targets are replaced by Credit targets by SFC. It is aimed that the Credit measure will more closely match student activity levels and timetabled learning.

Credit targets will be lower than WSUMS as the full time tariffs have been removed to allow the same pro-rata price to be paid for a full or part-time student.

SFC will pay more for each credit, with the aim that the changes made are cost neutral. The total grant payable under the new methodology is adjusted to the same level as under the old methodology.

Appendices

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Appendix A



Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm that there are no other fees for other services.

Fees

	Per Audit plan £	Actual fees £
College Audit	14,250	14,250
Total audit fees	14,250	14,250

Fees for other services

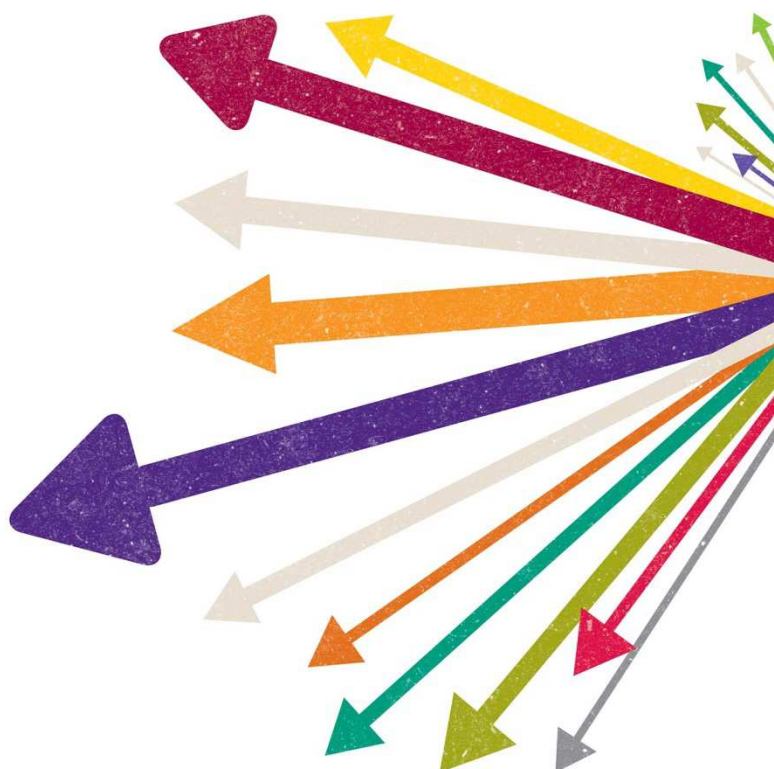
Service	Fees £
None	Nil

Fees are exclusive of VAT.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.



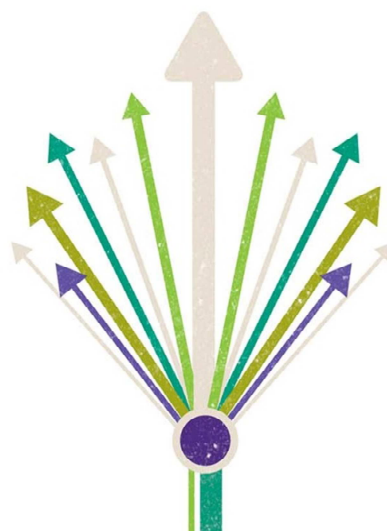
Appendix B



Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

Issue	Commentary
1 Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from Dumfries and Galloway College The letter of Representation includes standard paragraphs covering areas including; <ul style="list-style-type: none"> Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable. Responsibility for the design and implementation of internal control to prevent and detect error and fraud. Related party relationships and transactions being appropriately accounted for and disclosed in accordance with the requirements of the Government Financial Reporting Manual and the Scottish Public Finance Manual. All events subsequent to the date of the financial statements and for which the Government Financial Reporting Manual and International Financial Reporting Standards requires adjustment or disclosure having been adjusted or disclosed.
2 Disclosures	<ul style="list-style-type: none"> Our audit work identified no material omissions in the financial statements. Minor adjustments were noted to disclosure notes to improve consistency and readership.
3 Matters in relation to fraud	<ul style="list-style-type: none"> Management indicated there were no identified fraud issues during 2014/2015. No other issues have been identified during the course of our audit procedures.
4 Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
5 Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6 Going Concern	<ul style="list-style-type: none"> We have considered managements assessment of going concern. Our work has identified no significant issues in relation to going concern.
7 Confirmation requests from other parties	<ul style="list-style-type: none"> We received external confirmations from the College's bankers to confirm the cash balances held.



Appendix C



Draft Independent Auditors Report

Independent auditor's report to the members of the Board of Management of Dumfries and Galloway College, the Auditor General for Scotland and the Scottish Parliament

We have audited the financial statements of Dumfries and Galloway College for the period ended 31 July 2015 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Income and Expenditure Account, the Statement of Historical Cost Surpluses and Deficits, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Board of Management and auditor

As explained more fully in the Statement of the Board of Management's Responsibilities, the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Generic scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the college's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2015 and of its deficit for the period then ended;

have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Draft Independent Auditors Report continued

Opinion on regularity

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

Qualified opinion on the remuneration report

The accounts direction requires the preparation of a remuneration report in accordance with the Government Financial Reporting Manual (FReM). The FReM requires the pension disclosures for each senior official who has served during the year including:

- the real increase during 2014/15 in the pension, and if applicable related lump sum at age 60;
- the value at 31 July 2015 of the accrued pension and, if applicable, related lump sum at age 60;
- the value of cash equivalent transfer value (CETV) at 1 April 2014 and 31 July 2015,
- the real increase in the CETV funded by the employer during 2014/15.

The college has not included these disclosures in the remuneration report. Except for this matter, in our opinion, the part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers.

Opinion on other prescribed matters

In our opinion, the information given in the Operating and Financial Review for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

proper accounting records have not been kept; or

- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Statement of Corporate Governance and Internal Control does not comply with Scottish Funding Council requirements.

We have nothing to report in respect of these matters.

Jackie Bellard

For and on behalf of Grant Thornton UK LLP

4 Hardman Square

Spinningfields

Manchester

M3 3EB

xx December 2015

Jackie Bellard is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000

Appendix D



Draft Letter of Representation

Grant Thornton UK LLP

4 Hardman Square

Spinningfields

Manchester

M3 3EB

xx December 2015

Dear Sirs

Dumfries and Galloway College
Financial Statements for the Period Ended 31 July 2015

This representation letter is provided in connection with the audit of the financial statements of Dumfries and Galloway College for the period ended 31 July 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with Statement of Recommended Practice: Accounting for Further and Higher Education Institutions (The SORP).

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

We have fulfilled our responsibilities, as set out in the terms of the Audit Scotland appointment letter dated 23 May 2011 and the Financial Memorandum agreed between the Scottish Funding Council and the College for the preparation of the financial statements in accordance with the SORP. In particular, the financial statements give a true and fair view of Dumfries and Galloway College's state of affairs as at 31 July 2015 and of its income and expenditure for the financial period.

We are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions of the College conform to the authorities that govern them. In addition, we are responsible for ensuring that funds from the Scottish Funding Council are used only in accordance with the Financial Memorandum with the Scottish Funding Council and any other conditions that the Scottish Funding Council may prescribe from time to time.

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the SORP.

All events subsequent to the date of the financial statements and for which the SORP requires adjustment or disclosure have been adjusted or disclosed.

The financial statements are free of material misstatements, including omissions.

Draft Letter of Representation continued

Information Provided

We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of your audit; and
- unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

We confirm that transfers made to the arm's length foundational trust were done so before the period end and to a trust independent of the College. Additionally, we confirm the trust is independent of the College and is therefore not required to be consolidated into the College's financial statements.

Yours faithfully

Signed on behalf of the Governing Body of Dumfries and Galloway College

Appendix E



Misclassifications and disclosure changes

The tables below separately provides details of disclosure changes identified during the audit which have been made in the final set of financial statements. Other minor amendments to improve consistency and readability were also made by management but are not separately listed.

Adjustment type	Value of change £	Draft financial statements £	Audited financial statements £	Account balance	Impact on the financial statements
1 Disclosure	n/a	C Turnbull B Johnstone	C Turnbull B Johnstone J Brown S Pedley A Wright	Remuneration Report – senior officers	The draft Remuneration Report did not include all senior officers. Further clarification was received during the course of the audit by the College which led to additional officers of the Board of Management included in the Remuneration Report.
2 Disclosure	n/a	30,000 2014/15 30,000 2013/14	Awaiting final figures	Remuneration Report – median calculation for 2014/15 and 2013/14	We are awaiting revised figures for the median calculations within the Remuneration Report from the College. Incorrect figures have been used in the draft accounts and these will change.



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GRT100964

Audit Committee

Financial Statements for the period ended 31 July 2015

1. PURPOSE OF REPORT

The purpose of this report is to present the Financial Statements for the period ended 31 July 2015.

A copy of the Financial Statements for the period is attached.

2. REMUNERATION REPORT

The financial statements now require to comply with the Government Financial Reporting Manual, which includes a Remuneration Report setting out the remuneration and accrued pension benefits of Senior College Executives.

Some of the information required to complete the Remuneration Report has been requested from the Local Government Pension Scheme, and the report will be updated when this information has been received.

3. OPERATING RESULTS

The results for the period show an operating deficit of £502,000. The deficit has been incurred as a result of the additional expenditure of depreciation cash budget for the period to 31 March 2015, in line with Scottish Funding Council's approval. The additional expenditure on developments which was met from the depreciation cash amounted to £296,000.

The Scottish Funding Council have issued guidance to the sector on the disclosure of the deficit in the financial statements, and this has been included in the Operating and Financial Review section of the accounts as well as within the notes to the accounts in order to highlight this change for readers of the accounts.

In addition, an accounting adjustment to include costs of £286,000 have been recognised within staffing costs for the period to 31 July 2015 in order to reflect the FRS 17 pension valuation at that date.

4. RECOMMENDATION

The Committee is asked to recommend the Financial Statements for approval by the Board of Management, pending receipt of the outstanding information.

Dumfries and Galloway College

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Professional Advisers

External Auditors:

Grant Thornton UK LLP
Chartered Accountants
4 Hardman Square
Spinningfields
Manchester
M3 3EB

Internal Auditors:

RSM Risk Assurance Services LLP,
6th Floor
25 Farringdon Street
London

Bankers:

Bank of Scotland
Level 6
110 St Vincent Street
Glasgow

Barclays
90 St Vincent Street
Glasgow

Solicitors:

AB & A Matthews
The Old Bank
Buccleuch Street Bridge
Dumfries

Grieve, Grierson, Moodie and Walker
14 Castle Street
Dumfries

MacRoberts Solicitors
152 Bath Street
Glasgow

Operating and Financial Review by the Board of Management of Dumfries and Galloway College**NATURE, OBJECTIVES AND STRATEGIES**

The Board presents its report and the audited financial statements which cover the sixteen month period 1 April 2014 to 31 July 2015.

Legal Status

The Board of Management of Dumfries and Galloway College was established under The Further and Higher Education (Scotland) Act 1992 for the purpose of conducting Dumfries and Galloway College. The College is a registered charity (Scottish Charity Number SC021189) for the purposes of the Charities and Trustee Investment (Scotland) Act 2005, and is exempt from corporation tax and capital gains tax. The College receives no similar exemption in respect of Value Added Tax.

Scope of the Financial Statements

The Financial Statements cover all activities of the College.

Context

Dumfries and Galloway College is a single college in a single region. Dumfries and Galloway Council is the sole Local Authority for the region. The College is the only general further education college in the region and potential learners and employers are dependent on it to deliver a curriculum which meets their needs. The College delivers further and higher education across a broad range of curriculum areas from access level to SCQF level 8, to approximately 1600 full-time and 3,500 part-time learners through its campus locations in Dumfries and 75 miles away in Stranraer.

The Region of Dumfries and Galloway is situated in the south west of Scotland. It is 77 miles from Glasgow and 79 miles from Edinburgh to the main town of Dumfries. The Region is the third largest in Scotland in terms of land mass but is one of the most sparsely populated with 150,800 people spread over 6,426 square kilometres.

The Region is characterised by small settlements of 3,000 people or less spread across a large area. Nearly half of all people live in settlements with fewer than 3000 people. The largest town is Dumfries (population 31,630), followed by Stranraer (10,290) and Annan (8,430) with no other settlement having more than 4000 people. The region suffers from a poor transport infrastructure with limited public services. A relatively low proportion of addresses in the region have broadband connections and those that do, have low average speed. The region faces many challenges – the economic situation, (currently it has the lowest average wage in Scotland and economic recovery is slow compared to other regions), rurality, and an ageing population.

Due to the characteristics of the region the College will remain financially challenged. In particular, the need to duplicate a wide range of curriculum and services in Stranraer, impacts both financially and on course viability. Small learner numbers and demand makes it difficult to sustain some provision and some courses require to be structured differently to those in Dumfries, e.g. by combining different levels of learners or using mixed methods of delivery, in order to maintain that area of provision.

The College's main campus is located in the outskirts of Dumfries adjacent to the Crichton Campus and the Universities of Glasgow and the West of Scotland, Scotland's Rural College (SRUC) and the Open University. The Crichton Campus is a unique collaboration between the College and these universities that brings a broad range of further and higher education to Dumfries. In particular, the Campus brings the choice of university learning to a region that in the past people have had to leave to attend university.

Mission Statement

The College's mission, as approved by the Board of Management, is:

"One College, One Team , where:

- Learners come first;***
- The changing needs of the economy are met; and***
- Innovation, collaboration and creativity are core to what we do.***

The College Strategic Outcomes are:

- We will provide opportunities to access and progress through education and training at all levels;
- We will deliver education and training that is a route to employment and career development and is aligned to local and national economic need;
- We will be the first choice for recruitment, training and development of the workforce;
- We will enable communities to grow and develop through local education and training;
- We will support more businesses to start-up, grow and diversify;
- We will enable people to build their independence and confidence in a supported environment;
- We will enable people, through lifelong learning, to remain healthy and socially engaged.

Operating and Financial Review (continued)

NATURE, OBJECTIVES AND STRATEGIES

Outcome Agreement

The College has set out its strategic objectives in the Scottish Funding Council Outcome Agreement 2014/15 to 2016/17. The Outcome Agreement is agreed annually with the Scottish Funding Council (SFC), and sets out what the College plans to deliver in return for funding from SFC. The Outcome Agreement reflects the College's commitment to responding to the educational and skills needs within the Dumfries and Galloway Region, and sets out high level objectives, including planned activities and timescales in order to meet those objectives. The needs are aligned to the Scottish Funding Council's national priorities.

Achievements made during the 2014/15 academic year include:

- a. The Board of Management and Executive Management Team strategic focus included the establishment of the new Regional Board structure, and successful recruitment of new Board Members;
- b. The successful development of a new Strategic Plan for 2015-2020 'Vision 2020'. Development of the new plan has provided the catalyst and opportunity for all staff and Board members to contribute to the development of a collective Vision, Mission and Plan.
- c. The College carried out a full Curriculum Review in 2014/15, in order to align the curriculum offering more closely to the economic needs of the region. Feedback from employers was used as well as Community Planning Partnership and other stakeholder groups in development of the Curriculum Plan for 2015/16.
- d. The CREST project, which was a unique collaboration pooling expertise, resources and knowledge on sustainability, training and innovation from four colleges in the UK and Ireland, reached a successful conclusion during 2014/15. The project was supported by the European Regional Development Fund, and was managed by the Special European Union Programmes Body (SEUPB). The project provided a range of facilities to help entrepreneurs and SME's to bring innovative and sustainable ideas from concept to reality. The College has committed to continuing to use the Micro Renewable Centre created through the project to support and train businesses to adopt and implement renewable energy solutions.
- e. Planning and further development of the College estate, including the successful completion of new Hospitality facilities in the Dumfries campus, in order to provide facilities to expand the curriculum and in response to regional demand for training in that area. The College are grateful to the Scottish Colleges Foundation, who provided grant funding of £1,492,000 to meet the costs of this project, which would otherwise not have been possible.
- f. Further development of the College infrastructure and systems, including further upgrading of the ICT network infrastructure in order to support the use of digital technology, and development of systems including online course application and enrolment services, and the successful introduction of an online student funding application.

College Reclassification and impact on operating results

In October 2010, the UK's Office of National Statistics (ONS) re-classified incorporated further education colleges throughout the UK as part of Central Government for the purposes of reporting government income, expenditure, finance and associated matters. The changes were effective for Dumfries and Galloway College from 1 April 2014. From 1 April 2014 onwards, for budgeting purposes, all of the College income and expenditure will count as part of the Scottish Government's income and expenditure, and all expenditure net of income requires budget cover from the Scottish Government's own budget limits.

One consequence of reclassification as central government bodies is that, from 1 April 2014, while the College continues to prepare accounts under the FE/HE Statement of Recommended Practice, it is now also required to comply with Central Government budgeting rules. This affects, among other things, the way in which non-depreciation charges are treated. For the 2014/15 budget period this has meant that the College received cash of £387,000 which had been earmarked against depreciation. Without approval to spend this cash, moving the College's Income and Expenditure account into a deficit position, it would have been effectively frozen. The Scottish Funding Council issued guidance to the College on this matter on 30 January 2015 (SFC Announcement SFC/AN/03/2015) which provided approval for the cash to be applied to student support, loan repayments and deliver improved services to learners.

The impact of the above has contributed £296,000 to the reported deficit for the 2014/15 financial period. However, the Scottish Funding Council has confirmed (in its letter to the College on 30 March 2015) that a deficit resulting from the College following its 30 January 2015 guidance should be treated as a 'technical' deficit and should not be interpreted, on its own, as a challenge to the College's ongoing financial sustainability. This position has been agreed with Audit Scotland and the Scottish Government.

Operating and Financial Review (continued)

Financial Objectives

The College's financial objectives following reclassification are:

- To operate a balance between operating income and expenditure, and achieve a break-even position;
- To manage the College's annual budget in line with the requirements of the Scottish Public Finance Manual, and balance the budget in Resource and cash terms each year;
- To maintain cash balances throughout the year at a level that is compatible with the efficient operation of the College.

The College requires to manage its income and expenditure against Scottish Government budget control limits, and maintain broadly the same level of working capital year on year.

The College has been able to apply to the Scottish Colleges Foundation to seek funding for estates and other developments which may not have been affordable from the College's operating budget. A grant of £1,492,000 was received during the period to 31 July 2015 for Hospitality developments, and the Foundation has agreed to provide grant assistance in 2015-16 for further estates and other projects.

Performance indicators

In accordance with Scottish Funding Council requirements, the College is required to publish and report progress against targets for national priorities. A 'Key Indicator Report' is reviewed at each meeting of the Board of Management as a measure of actual performance against target. The following areas are included within the report:

- WSUMS
- Enrolments
- Retention
- Finance
- Staffing

In addition, the Board receives regular reports to enable it to review the performance of Dumfries and Galloway College with its comparators.

The performance indicators for 2014/15 and 2013/14 are as follows:

	<u>2014/15</u>	<u>2013/14</u>
WSUMS achieved	42,423	42,761
WSUMS per staff FTE	203	212
<i>Target WSUMS</i>	42,529	42,529
Operating deficit (inclusive of FRS 17 adjustments)	(£502,000)	(£1,651,000)
Operating (deficit)/ surplus - excluding transfer to Foundation	(£484,000)	£469,000
(Deficit)/ Surplus excluding transfer to Foundation as a % of total income	2.85%	5.25%
(Deficit)/ Surplus excluding transfer to Foundation as a % of total expenditure	2.77%	4.43%
Staff costs as a % of total expenditure excluding transfer to Foundation	56.6%	59.1%
Ratio of current assets to current liabilities	1.31	1.27
Days cash to total expenditure excluding depreciation and transfer to Foundation	66	67
Non SFC income as a % of total expenditure excluding transfer to Foundation	23.3%	22.1%

FINANCIAL POSITION

Financial Results

The College operating results are for a sixteen month accounting period. The results for the period show an operating deficit of £502,000. The deficit includes the additional expenditure from depreciation cash budgets of £296,000 as well as a net charge of £286,000 to the Income and Expenditure account to reflect the FRS 17 valuation adjustments at 31 July 2015, as detailed at Note 25.

The College Balance Sheet at 31 July 2015 shows a decrease in total reserves of £3,292,000 from 31 March 2014, which includes an increase of £1,291,000 to £5,219,000 in the deficit for the Local Government Pension Scheme, as detailed at Note 25 and a decrease in the valuation of the College land and buildings by £1,785,000.

College bank balances shows a small increase during the period. Funds have been retained to meet creditors and future Lennart liabilities as disclosed at Notes 15 and 16.

Operating and Financial Review (continued)**Taxation Status**

The College has been entered into the Scottish Charity Register (Reference SC021189) and is entitled, in accordance with section 13(1) of the Charities and Trustee Investment (Scotland) Act 2005, to refer to itself as a Charity registered in Scotland. The College is recognised by HM Revenue & Customs as a charity for the purposes of Section 505, Income and Corporation Taxes Act 1988 and is exempt from corporation tax on its charitable activities. The College receives no similar exemption in respect of Value Added Tax.

Treasury Policies and Objectives

The College funds have been managed, on a day-to-day basis, by the Finance Manager. The level of cash reserves held during the year has reduced in accordance with the requirements of the Scottish Public Finance Manual (SPFM), and grant is drawn on the basis of need. In 2014/15, interest of £16,000 was earned on College funds. With the exception of cash and bank deposits, the College does not have any other investments. The College had no borrowing requirements during the period to July 2015.

Cash Flows/Liquidity

The College's cash and liquid resources position at the end of the period was £2,163,000 (31 March 2014: £2,127,000). This equates to having 66 days of cash on hand. The College has retained sufficient funds in order to repay a liability under HMRC's Lennartz scheme.

Creditor Payment Policy

The College has implemented the 'Better Payment Practice Code'. As such, we aim to pay suppliers within the agreed credit terms and deal with all disputes and complaints as quickly as possible. The proportion of year-end creditors to the aggregate invoiced amounts during the academic year was 0.3% (2013/14 - 4.0%). The College did not pay any interest on late payments as defined under the Late Payment of Commercial Debts (Interest) Act 1998.

CURRENT AND FUTURE DEVELOPMENTS AND PERFORMANCE**Student Numbers**

During academic year 2014-15, the College delivered 42,423 WSUMs. Total numbers for student enrolments increased from 5,541 in 2013-14 to 5,705 in 2014-15, an increase of 3%. Within these overall numbers full-time student numbers were maintained at 1,619 (1616 in 2013-14). However full-time FE student numbers declined by 11% from 1,239 in 2013-14 to 1,112 in 2014-15 but full-time HE student numbers increased by 28%, from 393 in 2013-14 to 507 in 2014-15. Part-time numbers increased by 3.6% from 3,938 in 2013-14 to 4,086 in 2014-15.

Student Achievements

In academic year 2014-15 the % of full-time FE students successfully achieving their programme of study was 64% and 71% for HE full-time students. The number of FE part-time students successfully achieving their programme of student was 84% and 75% for HE part-time students.

Curriculum Developments

The College's curriculum continues to be shaped to support e-learning and blended learning approaches, as further developments for the Transform project are made.

The College carried out a full Curriculum Review in 2014/15, in order to align the curriculum offering more closely to the economic needs of the region. Feedback from employers was used as well as Community Planning Partnership and other stakeholder groups in development of the Curriculum Plan for 2015/16. Employer Advisory Boards were established with the aim of strengthening relationships with employers and businesses in the region. The remit of the Boards is to ensure the curriculum is fit for purpose, to increase industry visits and work experience opportunities for learners, and to encourage more employers to directly recruit from the College. During 2014/15, the College worked with the NHS to develop a 'Reablement programme', Dumfries and Galloway Housing Partnership to develop bespoke programmes, and SPEN to expand the Overhead Lines Technician course to include jointing skills. The College is currently in discussions with Laing O'Rourke to explore opportunities relating to the construction of the region's new acute district hospital.

Operating and Financial Review (continued)

Estates Strategy

The College is currently developing a 5 year estates strategy to support the College strategic plan Vision 2020. The strategy will aim to:

- provide flexible, fit for purpose accommodation to reflect modern delivery;
- continue to ensure efficient space utilisation;
- identify the need for rationalisation and disposal of assets which are surplus to requirements;
- maximise the value of the estate, looking at existing and alternative uses;
- establish and maintain clear routine, statutory and long term preventative maintenance plans;
- consider opportunities for effectiveness through shared services with our Crichton partners;
- ensure the space is fully accessible, meeting all ability needs;
- continue to reduce carbon emissions in line with the College's Climate Change Action Plan.

This strategy will be updated annually to reflect the development of the estate and to meet the changes in the wider environment.

Post-Balance Sheet Events

There were no post balance sheet events.

Future Developments

Dumfries and Galloway College is moving into an exciting stage of development, building on previous successes and driving forward to achieve the aspiration of becoming an 'outstanding college'. The College aims to deliver the highest quality learning for students, to make a positive contribution to the local and national economies and to utilise the expertise of College staff to deliver continuous improvements. 'Vision 2020' is the Strategic Plan for the period 2015-2020 and sets out the vision 'Inspiring our People, Businesses and Communities to be successful', the mission 'One College, one Team where: Learners come first; the changing needs of the economy are met; and innovation, collaboration and creativity are core to what we do'.

Priority Outcomes for academic year 2015/16 include:

Stakeholder Consultation - The Regional College Chair is driving forward the establishment of an Invest in Young People Partnership in Dumfries and Galloway and, although this will be employer-led, the College will have a key role in taking forward this initiative. In addition, the College will be represented at a senior executive level on the Economic leadership group which is being established in Dumfries and Galloway, which will ensure a cohesive approach to the economic development and success of the region.

Shared Services and Collaboration - The College will continue to seek opportunities to expand shared services with the Crichton Institute, which is a new collaborative venture comprising Crichton academic and wider strategic partners. All of the Crichton partners are working to identify and deliver enhanced facilities that will support and encourage a strong, vibrant student community on the Crichton campus.

Developing the Student Association - the College will use the funding provided by the Scottish Funding Council's College Strategic Fund to develop the Student Association by working with the National Union of Students to develop, implement and support a sustainable Students Association, and ensure equivalence of the student association across the two campuses in Dumfries and Stranraer.

High quality learning and teaching - the College is committed to meeting learner needs by providing appropriate learning opportunities, skills and qualifications. Improving attainment will be a key priority, and the College will continue to increase the number of programmes leading to recognised qualifications and level qualifications through the Scottish Credit Qualification Framework as well as develop strategies for improving attainment at course level.

Improving the success rates for students is a priority for the College, and ambitious targets have been set for 2015/16 for improvement in the number of learners achieving recognised qualifications, as well as improving retention rates.

The College will continue working to explore articulation opportunities with Crichton University partners, as well as maximise progression opportunities for all learners.

ICT and Broadband capacity - ICT is at the heart of our business. The College plans to upgrade the network infrastructure and cabling in our Stranraer campus in order to maximise the use of digital technology and deliver a flexible curriculum and learner experience, at the same level as the infrastructure in Dumfries.

Operating and Financial Review (continued)

RESOURCES

The College receives the majority of its income from the Scottish Funding Council in the form of grants. This income is supplemented by fees charged to private individuals and companies.

ENVIRONMENTAL CONSIDERATIONS

The College has signed up to the Universities and Colleges Climate Change Commitment. As such, we are committed to reducing our environmental impact and promoting sustainable development through education. The College recognises the scale and speed of climate change, and agrees that early action is needed to achieve the Scottish Government objective of reducing emissions by 80% by 2050.

The College is developing a 5 year Climate Change Action Plan to achieve reduced emissions. This is designed to contribute to government targets and minimise the environmental impact of any changes and developments where possible. The plan is being developed with support from the Carbon Trust and includes baseline data from a Carbon Audit. In addition to consideration of ongoing improvements such as energy-efficient lighting, insulation, paper and other waste reduction initiatives, plans are underway to roll out a programme of awareness raising for staff and students. This was a main priority identified in our Carbon Audit.

Awareness of sustainability and renewable issues have been further embedded into the curriculum during the year through the Sustainability Officer with workshops being delivered for staff and students and work books being developed across the curriculum. The full term of the College Green Travel Plan is now complete and an audit is being planned to confirm progress made. Initiatives continue regarding sustainable travel for staff and students together with promotions such as 'Walk to Work' week, and car sharing through collaboration with Dumfries and Galloway Council's 'DGTripshare' website. A pool cycle and bikebin is now available for staff at the Stranraer campus, which mirrors the facilities available at the Crichton campus.

PRINCIPAL RISKS AND UNCERTAINTIES

The Risk Register is reviewed by the Board of Management at every meeting. The principal risks that may affect the College's long-term financial position are:

- **External financial environment.** *The impact of National Pay bargaining on the College finances is unknown. In addition, the continued uncertainty of public sector financial allocations will continue to be closely monitored by the Board.*
- **Diversify income streams.** *The impact of the economic downturn and public sector funding cuts has increased the importance of finding other sources of income, and the College will continue to develop external funding bids where possible and collaborate with other organisations in order to increase non-SFC income.*
- **Changes to the funding model.** *The implementation of needs-led funding, in particular changes to Extended Learning Support and rural funding aspects of the recurrent SFC grant, will continue to be closely monitored and reported to the Board.*
- **Capital funding.** *There is potential for significant changes in the SFC allocation process for capital funding, which may impact the College's ability to fund estates developments and other projects in future. The College will continue to monitor this.*
- **Student achievement and attainment.** *The learners in the College generally achieve well, including wider achievement. However, the changes to the Regional Outcome Agreement with the Scottish Funding Council and attaching conditions on attainment to the recurrent grant could have a consequential impact on the College budgets in future years.*
- **Demand for Student Support.** *The demand for student support continues to be monitored, and assessed against funding available. The senior managers and Board will continue to monitor this.*

Operating and Financial Review (continued)

STAKEHOLDER RELATIONSHIPS

In line with other colleges, Dumfries and Galloway College has many stakeholders. These include:

- **Students** - The College must maintain an excellent reputation for high quality, flexible learning opportunities in order to be a first choice provider of learning and training.
- **Scottish Funding Council** - the College aims to maintain its good relationship with the Scottish Funding Council in order to ensure continued strategic development;
- **Staff** - The College recognises the value of its staff and has a number of measures to enhance communication;
- **Crichton Campus Leadership Group** - as a member of the Crichton Campus Leadership Group, the College works with Campus partners to maximise the educational and other opportunities the Crichton campus can provide;
- **Local Employers, the Local Authority and community** - these groups provide a major input into the services required from the College in order to enhance the economic and social development of the region;
- **Government offices** - positive reports from Education Scotland and other external reviews on the work carried out in the College have a positive impact on the College's reputation in the local and wider community;
- **Other FE and HE institutions** - continued collaboration and benchmarking with other institutions is essential in order to maintain high quality learning;
- **Trade Unions** - the College aims to maintain a positive working relationship with all recognised representative bodies;
- **Professional Bodies** - continued close relationships with professional bodies will help to ensure programmes are relevant and of the highest quality.

Equal Opportunities and employment of disabled persons

The College is committed to a policy of equal opportunities for all staff and students. We aim to create an environment which enables everyone to participate fully in their chosen studies and college life. The College supports inclusiveness and widening access in all forms, particularly in relation to gender, ethnicity and disability. We aim to design our curriculum to be as accessible as possible for all students and provide extra support where this is reasonable. This includes the provision of alternative formats for curriculum material, physical access and financial assistance where students are eligible for third party support such as scribes and signers.

All individuals within Dumfries and Galloway College have a responsibility for compliance with legislation and for a positive attitude towards equal opportunities. All external persons connected to Dumfries and Galloway College will be encouraged to hold the same responsibility and commitment.

Disclosure of information to auditors

The Board members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the College's auditors are unaware; and each Board member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the College's auditors are aware of that information.

Remuneration Report

Introduction

The College is required to prepare and publish within its financial statements an annual Remuneration Report under the 2014/15 Government Financial Reporting Manual (FReM) issued by the Scottish Government, which came into force for the period ending 31 March 2015.

The report sets out the remuneration and accrued pension benefits of the Senior College Executives, which comprises the Chairman of the Regional Board, College Principal and Executive Management Team. The Chairman of the Regional Board and College Principal are the only two members of the Regional Board who receive remuneration in respect of their post, and as Board members have responsibility for directing the major activities of the College during the period in accordance with the FReM.

The report also provides information on the number of College Employees, including Executive Management Team members, whose total actual remuneration was £50,00 or more, this information being disclosed in salary bandings of £5,00 above £50,000. The following report has been prepared in accordance with the aforementioned Regulations.

The College's External Auditor is required to audit certain parts of the remuneration report and give a separate opinion in his report on the Statement of Accounts as to whether the Remuneration Report has been properly prepared in accordance with the Regulations. All the tables in this report are subject to audit except those relating to Staff Members Allowances and Expenses.

Remuneration Policy

The remuneration of the Regional College Chair is set by the Scottish Government, and is a non-pensionable post.

The Remuneration Committee is responsible for making recommendations to the Board on the remuneration and benefits of the Principal and other senior post-holders. The Committee takes into account public pay policy, pay awards to other categories of staff and guidance from the Scottish Funding Council and Scottish Government.

Remuneration of the Executive Management Team is set out in note 8 of the financial statements.

The College's employees receiving more than £50,000 remuneration during the period covered by the financial statements are shown below. This information is disclosed in salary bandings of £5,000 above £50,000 or more.

	16 Month period ended 31 July 2015		8 Month period ended 31 March 2014	
	Number senior post- holders	Number other staff	Number senior post-holders	Number other staff
£50,001 to £55,000 per annum	0	8	0	0
£55,001 to £60,000 per annum	0	0	0	0
£60,001 to £65,000 per annum	0	3	1	0
£65,001 to £70,000 per annum	0	0	0	0
£70,001 to £75,000 per annum	1	0	0	0
£75,001 to £80,000 per annum	0	0	0	0
£80,001 to £85,000 per annum	2	0	0	0
£85,001 to £90,000 per annum	0	0	0	0
£90,001 to £95,000 per annum	0	0	0	0
£95,001 to £100,000 per annum	0	0	0	0
£100,001 to £105,000 per annum	0	0	0	0
£105,001 to £110,000 per annum	0	0	0	0
£110,001 to £115,000 per annum	0	0	0	0
£115,001 to £120,000 per annum	0	0	0	0
£120,001 to £125,000 per annum	1	0	0	0
	4	11	1	0

During the period, the College made no payments for compensation on early retirement or loss of office (2013/14 - £nil).

During the period, the College made no non-cash benefits available to staff (2013/14 - none).

Remuneration Report (continued)**Salary entitlements**

The following table provides detail of the remuneration and pension interests of Senior Executives.

	16 months ended 31 July 2015			8 months ended 31 March 2014		
Name	Actual			Actual		
	Salary £'000	Pension benefit £'000	Total £'000	Salary £'000	Pension benefit £'000	Total £'000
B. Johnstone - Actual	30	0	30	0	0	0
C. Turnbull - Actual	125	35	160	60	55	115
J. Brown - Actual	80	35	115	40	10	50
H. Pedley - Actual	75	30	105	40	5	45
S.A. Wright - Actual	85	20	105	40	5	45

	Annual Equivalent			Annual Equivalent		
Name	Pension			Pension		
	Salary £'000	benefit £'000	Total £'000	Salary £'000	Pension benefit £'000	Total £'000
B. Johnstone - Annual Equivalent	20	0	20	0	0	0
C. Turnbull - Annual Equivalent	95	25	120	90	80	170
J. Brown - Annual Equivalent	65	25	90	60	15	75
H. Pedley - Annual Equivalent	55	25	80	60	10	70
S.A. Wright - Annual equivalent	65	15	80	60	5	65

Median Remuneration

Based on the 12 month equivalent figures above, the banded remuneration of the highest paid official in the organisation during the financial year 2014-15 was £95,000. (2013-14 - £90,000). This was 3 times (2013-14 3 times) the median remuneration of the workforce which was £30,000 (2013-14 £30,000).

Accrued pension benefits

Pension benefits for employees are provided through the Scottish Teacher's Superannuation Scheme (STSS), a defined benefit scheme which is externally funded and contracted-out of State Earnings-Related Pension Scheme and the Local Government Pension Scheme (LGPS) Dumfries and Galloway Pension Fund.

Both STSS and LGPS are final salary pension schemes. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme.

Contribution rates are set annually for all employees, as set out at note 25.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) a pension for lump sum up to the limit set up by the Finance Act 2004. The actual rate guarantees a pension based on the pensionable salary and years of pensionable service.

Changes to the Local Government Pension Scheme

Changes were made to the LGPS scheme from 1 April 2005. The pension after that date for members will be calculated on a career average basis, and the pension age will align with the state pension age.

Scheme members will be able to choose to leave the scheme and draw their pension from normal pension age, or choose to work longer. Pension benefits would be reduced if the member retires before their normal pension age, and increased if they choose to work longer.

Pension benefits built up by members in the scheme up to 31 March 2015 are protected, and will still be based on their final salary on leaving and the normal pension age in the current scheme. Member benefits build up in the new way from April 2015.

Remuneration Report (continued)**Senior Executives Pension**

Pension benefits are provided to Senior Executives on the same basis as all other staff. The accrued pension benefits for senior officials are set out in the table below, together with pension contributions made by the College.

	Accrued pension at pension age at 31 July 2015	Accrued lump sum at pension age at 31 July 2015	Real increase in pension 1 April 2014 to 31 July 2015	Real increase in lump sum 1 April 2014 to 31 July 2015	CETV at 31 July 2015	CETV at 31 March 2014	Real increase in CETV
Name	£'000	£'000	£'000	£'000	£'000	£'000	£'000
B. Johnstone	0	0	0	0	0	0	0
C. Turnbull	35	70	5	2.5			
J. Brown	30	60	2.5	2.5			
H. Pedley	25	55	2.5	2.5			
S.A. Wright	25	65	5	5	391	359	23

Cash Equivalent Transfer Value

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time.

The value of the accrued pension benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation. The pension figures shown relate to the benefits that the person has accrued as a consequence of their total service and not just their current appointment.

In considering the accrued pension benefits figures the following contextual information should be taken into account:

1. The figures for pension and lump sum are illustrative only in light of the assumptions set out above and do not necessarily reflect the actual benefits that any individual may receive upon retirement:
2. The accrued benefits figures are reflective of the pension contributions that both the employer and scheme member have made over a period of time.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Compensation for loss of office

No employees left under voluntary exit terms during the year.

Approved by order of the members of the Board on 15 December 2015 and signed on its behalf by:

Brian Johnstone

Chairman

Carol Turnbull

Principal

Statement of Corporate Governance and Internal Control

Corporate Governance Statement

Dumfries and Galloway College is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles of the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010. Its purpose is to help the reader of the financial statements understand how the principles have been applied.

The Scottish Government have published a 'Code of Good Governance for Scotland's Colleges' which codifies the principles of good governance that already exist in colleges, and promotes accountability and continuous improvement in how colleges are governed. The Code establishes standards of good governance practice for all college boards and provides the essential foundations for compliance with the legislative framework set out by the further and higher education acts.

The Board of Management of Dumfries and Galloway College adopted the 'Code of Conduct for Members' in June 2014. The Board also adopted the code of Good Governance for Scotland's Colleges in January 2015. The Regional Board complied with the 'College Sector Board Appointments: 2014 Ministerial Guidance' when appointing all non-executive board members.

Statement of full UK Corporate Governance Code compliance

In the opinion of the Board of Management, the College complies with all the provisions of the Code, in so far as they apply to the further education sector, and it complied throughout the period ended 31 July 2015.

Statement of full compliance with the Code of Good Governance for Scotland's Colleges

In the opinion of the Board of Management, the College complies with all the provisions of the Code of Good Governance for Scotland's Colleges, and it complied throughout the period ended 31 July 2015.

Membership of the Board of Management

The Regional Chair, Brian Johnstone, was appointed in March 2014 and the College Board of Management became a Regional Board with effect from 3rd March 2015, with the Chair and the Principal continuing as members of the Board beyond 2nd March 2015 and all other appointments subject to review.

The Board recruitment process to appoint members to the Regional Board was implemented in two stages, in May 2014 and November 2014. An elections process was also undertaken to identify the staff Members, Student President and Vice President.

The recruitment of members for the Regional Board has been undertaken in-line with the College Sector Board Appointments: 2014 Ministerial Guidance. The Board Membership of 16 comprises of the Chair, the Principal, two student members, two staff members and 10 non-executive members.

The members who served on the Board of Management and Regional Board during the year and up to the date of signature of this report are set out on the next page. It is the Board's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Board is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against targets, capital expenditure, quality matters and personnel related matters such as health and safety and environmental issues.

Dumfries and Galloway College Board of Management met seven times during the 2014/15 financial period and conducts its business through a number of committees. All of these committees are formally constituted with terms of reference approved by the Board of Management. The committees comprise non-executive members of the Board of Management and are all chaired by a Member of the Board. These committees include a Human Resources Committee, a Finance and General Purposes Committee, a Selection and Appointments Committee, a Remuneration Committee, a Learning and Teaching Committee and Audit Committee.

The Clerk to the Board maintains a register of financial and personal interests of the members of the Board of Management. The register is available for inspection at Bankend Road, Dumfries.

All Board Members are able to take independent professional advice in furtherance of their duties at the College's expense and have access to the Clerk to the Board of Management, who is responsible for ensuring compliance with all applicable procedures and regulations. The appointment, evaluation and removal of the Clerk are matters for the Board of Management as a whole.

Formal agendas, papers and reports are supplied to Board Members in a timely manner, prior to Board meetings. Briefings are also provided on an ad hoc basis.

Statement of Corporate Governance and Internal Control (continued)

The Board of Management has a strong and independent non-executive element and no individual or group dominates its decision making process. The Board of Management considers that each of its non-executive members is independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement.

There is a clear division of responsibility in that the roles of the Chairman and Principal are separate.

Members

The undernoted individuals are the current members of the Regional Board:

Janet Brennan
Hugh Carr
Ros Francis
Janice Goldie
Barry Graham
John Henderson
Kenny Henry (Support Staff Member)
Delia Holland (Vice Chair)
Brian Johnstone (Regional College Chair)
Pat Kirby
Stuart Martin
Karen McGahan
Craig McGill (Student Member)
Carol Turnbull (Principal and Chief Executive)
Julian Weir (Student Member)
Ian White (Lecturing Staff Member)

The following individuals were also Board members in the period from April 2014 up to 31 July 2015:

Sandy Burgess (resigned January 2015)
Sam Glendinning (Student Representative, resigned July 2015)
Colin Grant (resigned March 2015)
Rona Gunnell (resigned July 2014)
Amanda Hannah (resigned March 2015)
Tom Hydes (resigned July 2014)
Rona Malloney (Student Representative, resigned July 2014)
Andrew Nyondo (Lecturing Staff representative, resigned June 2015)

Jannette Brown acted as Clerk to the Board throughout the period.

Committees of the Board of Management

The Board of Management has formally constituted several committee with terms of reference. These committees act with delegated authority. Information on the Board's committees is given below, together with details of membership of key committees during the period to 31 July 2015.

Statement of Corporate Governance and Internal Control (continued)**Key Committees:**

Human Resources Committee

Members - Janet Brennan, Tom Hydes, Karen MacGillivray Fallis, Stuart Martin, Andrew Nyondo, Carol Turnbull

Selection and Appointments Committee

Members - Hugh Carr, Delia Holland, Brian Johnstone, Stuart Martin

Remuneration Committee

Members - John Henderson, Delia Holland, Brian Johnstone

Audit Committee

Members - Sandy Burgess, Hugh Carr, Janice Goldie, Delia Holland, Pat Kirby, Karen MacGillivray Fallis, Stuart Martin

Finance and General Purposes Committee

Members - Ros Francis, Rona Gunnell, John Henderson, Kenny Henry, Karen McGahan, Carol Turnbull

Learning and Teaching Committee

Members - Barry Graham, John Henderson, Kenny Henry, Delia Holland, Sam Glendinning, Rona Gunnell, Rona Malloney, Carol Turnbull, Julian Weir.

Appointments to the Board of Management

Any new appointments to the Board of Management are a matter for consideration by the Board as a whole. The Board has a Selection and Appointments Committee, which is responsible for the selection and nomination of any new member for the Board's consideration. The Board of Management is responsible for ensuring that appropriate training is provided as required.

Human Resources Committee

The primary purpose of the Human Resources Committee is to advise the Board of Management on all staffing matters affecting the College.

Selection and Appointments Committee

The Selection and Appointments Committee manage the process of recruitment and appointment of candidates for membership of the Board of management, including recommending candidates for approval of the Chair and Scottish Ministers.

The Selection and Appointments Committee also review and consider the composition and balance of the Board in relation to equality, skills and experience, develop policies and procedures for induction, training and development of Board members, and receive and review evaluation reports on Board performance and development.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on the remuneration and benefits of the Principal and other senior post-holders. Details of the remuneration of senior post-holders for the period ended 31 July 2015 are set out in note 8 to the financial statements.

Audit Committee

The Audit Committee comprises a minimum of three members of the Board of Management (excluding the Principal and Chair). The Committee operates in accordance with written terms of reference approved by the Board of Management.

Statement of Corporate Governance and Internal Control (continued)

The Audit Committee meets a minimum of three times a year, and provides a forum for reporting by the College's internal, regularity and financial statements auditors. The auditors have access to the Committee for independent discussion, without the presence of College management.

The College's internal auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input, and report their findings to management and the Audit Committee. Management is responsible for the implementation of agreed audit recommendations and internal auditors undertake periodic follow-up reviews to ensure such recommendations have been implemented.

The Audit Committee also advises the Board of Management on the appointment of internal, regularity and financial statements auditors and their remuneration for both audit and non-audit work.

Finance and General Purposes

The Finance and General Purposes Committee inter alia recommends to the Board of Management the College's annual revenue and capital budgets and monitors performance in relation to the approved budgets.

Learning and Teaching

The Learning and Teaching Committee has overall responsibility for monitoring the direction and performance of learning and teaching and the quality of the learners experience at the College.

Risk Management and Internal Control***Scope of Responsibility***

The Board of Management is ultimately responsible for the College's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Board of Management has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which she is personally responsible, in accordance with the responsibilities assigned to her in the Financial Memorandum between Dumfries and Galloway College and the SFC. She is also responsible for reporting to the Board of Management any material weaknesses or breakdowns in internal control.

Purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Dumfries and Galloway College for the period ended 31 July 2015 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Board of Management has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Board of Management is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2015 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Board of Management.

Risk and control framework

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- regular reviews by the governing body of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines;
- the adoption of formal project management disciplines, where appropriate.

Statement of Corporate Governance and Internal Control (continued)***Risk and control framework (continued)***

The College manages the risks faced by adopting robust management practices. The planning processes, self-evaluation and sector review, and audit processes are designed to identify and manage risks. A detailed risk register is maintained and updated on a regular basis. The risk register is discussed at each meeting of the Audit Committee.

Dumfries and Galloway College has an internal audit service, the work of which is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Board of Management on the recommendation of the Audit Committee. On an annual basis, a report is provided to the Board of Management detailing internal audit activity in the College. The report includes the internal auditors' independent opinion on the adequacy and effectiveness of the College's system of risk management, controls and governance processes.

Review of effectiveness

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. Her review of the effectiveness of the system of internal control is informed by:

- the work of the internal auditors;
- the work of the senior managers within the College who have responsibility for the development and maintenance of the internal control framework;
- comments made by the College's financial statements auditors and the regularity auditors in their management letters and other reports.

The Principal has been advised on the implications of the results of her review of the effectiveness of the system of internal control by the Audit Committee, which oversees the work of the internal auditor, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Executive Management Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the departments and reinforced by risk awareness training. The Executive Management Team and the Audit Committee also receive regular reports from the internal auditor, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Board of Management's agenda includes a regular item for consideration of risk and control and receives reports thereon from the Executive Management Team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2015 meeting, the Board of Management carried out the annual assessment for the period ended 31 July 2015 by considering documentation from the Executive Management Team and internal audit, and taking account of events since 31 July 2015.

Going Concern

After making appropriate enquiries, the Board of Management considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

Conclusion

The Audit Committee's opinion is that the College has an appropriate framework of internal control, and provides reasonable assurance regarding the effective and efficient deployment of resources to achieve the College aims.

Approved by order of the members of the Board on 15 December 2015 and signed on its behalf by:

Brian Johnstone
Chairman

Carol Turnbull
Principal

Statement of the Board of Management's Responsibilities

The Board of Management is required to present audited financial statements for each year.

In accordance with the Further and Higher Education (Scotland) Act 1992, the Board of Management is responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board of Management is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2007 Statement of Recommended Practice on Accounting in Further and Higher Education Institutions, the 2014-15 Government Financial Reporting Manual (FRoM) issued by the Scottish Government and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the College's Board of Management, the Board of Management, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year.

In preparing the financial statements, the Board of Management has ensured that:

- Suitable accounting policies are selected and applied consistently;
- Judgements and estimates are made that are reasonable and prudent;
- Applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Financial statements are prepared on the going concern basis unless it is inappropriate to presume that the College will continue in operation. The Board of Management is satisfied that it has adequate resources to continue in operation for the foreseeable future and for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Management has taken reasonable steps to:

- Ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- Ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- Safeguard the assets of the College and prevent and detect fraud;
- Secure the economical, efficient and effective management of the College's resources and expenditure.

The key elements of the College's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- Clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- Regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- Clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management;
- Comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and the Finance and General Purposes Committee;
- Professional internal audit team whose annual programme is approved by the Audit Committee and endorsed by the Board of Management and whose head provides the Board of Management with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

Approved by order of the members of the Board on 15 December 2015 and signed on its behalf by:

Brian Johnstone
Chairman

Independent auditor's report to the members of the Board of Management of Dumfries and Galloway College, the Auditor General for Scotland and the Scottish Parliament

We have audited the financial statements of Dumfries and Galloway College for the period ended 31 July 2015 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Income and Expenditure Account, the Statement of Historical Cost Surpluses and Deficits, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Board of Management and auditor

As explained more fully in the Statement of the Board of Management's Responsibilities, the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Generic scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the college's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2015 and of its deficit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Opinion on regularity

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

Independent auditor's report to the members of the Board of Management of Dumfries and Galloway College, the Auditor General for Scotland and the Scottish Parliament (continued)

Qualified opinion on the remuneration report

The accounts direction requires the preparation of a remuneration report in accordance with the Government Financial Reporting Manual (FReM). The FReM requires the pension disclosures for each senior official who has served during the year including:

- the real increase during 2014/15 in the pension, and if applicable related lump sum at age 60;
- the value at 31 July 2015 of the accrued pension and, if applicable, related lump sum at age 60;
- the value of cash equivalent transfer value (CETV) at 1 April 2014 and 31 July 2015,
- the real increase in the CETV funded by the employer during 2014/15.

The college has not included these disclosures in the remuneration report. Except for this matter, in our opinion, the part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers.

Opinion on other prescribed matters

In our opinion, the information given in the Operating and Financial Review for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Statement of Corporate Governance and Internal Control does not comply with Scottish Funding Council requirements.

We have nothing to report in respect of these matters.

Jackie Bellard
For and on behalf of Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
M3 3EB

15 December 2015

Jackie Bellard is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000.

Income and Expenditure Account for the period ended 31 July 2015

		Period ended 31 July	Period ended 31 March
	Note	2015	2014
		£000	£000
INCOME			
SFC grants	2	12,906	7,062
Tuition fees and education contracts	3	2,271	1,211
Other grant income	4	1,136	283
Other operating income	5	569	352
Endowment and investment income	6	93	24
Total Income		16,975	8,932
EXPENDITURE			
Staff costs excluding exceptional costs		9,878	5,004
Exceptional costs - severance costs		0	0
Staff costs including exceptional costs	7	9,878	5,004
Other operating expenses	9	6,002	2,672
Transfer to Arms Length Foundation	9	18	2,120
Depreciation	12	1,579	787
Interest payable	10	0	0
Total Expenditure		17,477	10,583
(Deficit)/ Surplus on continuing operations after depreciation of assets at valuation and before tax		(502)	(1,651)
Taxation		0	0
(Deficit)/ Surplus on continuing operations after depreciation of assets at valuation and after tax		(502)	(1,651)
(Deficit)/ Surplus for the period retained within general reserves		(502)	(1,651)

The income and expenditure account is in respect of continuing activities.

Other operating expenses includes costs of £296,000 which have been met from cash grants received from the Scottish Funding Council for depreciation in order to comply with Central Government budgeting rules and in accordance with guidance from the Scottish Funding Council as described in more detail at Note 9.

Statement of Historical Cost Surpluses and Deficits for the period ended 31 July 2015

		Period ended 31 July	Period ended 31 March
	Note	2015	2014
		£000	£000
(Deficit)/ Surplus on continuing operations before taxation		(502)	(1,651)
Difference between historical cost depreciation and the actual charge for the period calculated on the revalued amount	19	<u>264</u>	<u>132</u>
Historical cost (deficit)/ surplus for the period before and after taxation		<u>(238)</u>	<u>(1,519)</u>

Statement of the Total Recognised Gains and Losses for the period ended 31 July 2015

		Period ended 31 July	Period ended 31 March
	Note	2015	2014
		£000	£000
(Deficit)/ surplus on continuing operations for the year after depreciation of assets at valuation and tax		(502)	(1,651)
Unrealised deficit on revaluation of fixed assets	12	(1,785)	0
Impairment of previously revalued fixed assets	12	0	0
Actuarial (loss)/ gain recognised since last annual report	19,25	<u>(1,005)</u>	<u>(1,066)</u>
Total recognised (loss) relating to the period		<u>(3,292)</u>	<u>(2,717)</u>
Total (loss) recognised since last annual report		<u><u>(3,292)</u></u>	<u><u>(2,717)</u></u>
Reconciliation			
Opening reserves		8,343	11,060
Total recognised (losses) for the year		<u>(3,292)</u>	<u>(2,717)</u>
		<u><u>5,051</u></u>	<u><u>8,343</u></u>

Balance Sheet as at 31 July 2015

		Period ended 31 July	Period ended 31 March
	Note	2015	2014
		£000	£000
Fixed Assets			
Tangible assets	12	<u>37,953</u>	<u>40,521</u>
Current Assets			
Debtors	13	297	1,001
Cash at bank and in hand	14	<u>2,163</u>	<u>2,127</u>
Total current assets		2,460	3,128
Less: Creditors - amounts falling due within one year	15	<u>(1,875)</u>	<u>(2,464)</u>
Net Current Assets		<u>585</u>	<u>664</u>
Total Assets less Current Liabilities		38,538	41,185
Less: Creditors - amounts falling due after more than one year	16	(745)	(1,184)
Less: Provision for liabilities	17	<u>(796)</u>	<u>(750)</u>
Net Assets excluding pension liability		36,997	39,251
Pension liability	25	<u>(5,219)</u>	<u>(3,928)</u>
NET ASSETS INCLUDING PENSION LIABILITY		<u>31,778</u>	<u>35,323</u>
Deferred capital grants	18	<u>26,727</u>	<u>26,980</u>
Reserves			
Income and expenditure account excluding pension reserve		5,705	5,657
Pension reserve	19	<u>(5,219)</u>	<u>(3,928)</u>
Income and expenditure account including pension reserve	19	486	1,729
Revaluation reserve	19	<u>4,565</u>	<u>6,614</u>
Total reserves		<u>5,051</u>	<u>8,343</u>
Total Funds		<u>31,778</u>	<u>35,323</u>

The financial statements on pages 21 to 43 were approved by the Board of Management on 15 December 2015 and were signed on its behalf by:

Brian Johnstone
Chairman

Carol Turnbull
Principal

Cash Flow Statement for the period ended 31 July 2015

		Period ended 31 July	Period ended 31 March
	Note	2015	2014
		£000	£000
Net cash inflow from operating activities	20	2	(2,514)
Returns on investments and servicing of finance	21	16	17
Capital expenditure and financial investment	22	18	2
(Decrease)/ increase in cash in the period		36	(2,495)

Note to the Cash Flow Statement**Reconciliation of net cash flow to movement in net funds**

(Decrease)/ increase in cash in the period		36	(2,495)
Movement in net funds in period		36	(2,495)
Net funds at 1 April 2014	23	2,127	4,622
Net funds at 31 July 2015	23	2,163	2,127

Notes to the Financial Statements**1 Statement of Principal Accounting Policies****Basis of preparation**

The financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and the Accounts Direction issued thereunder by the Scottish Further and Higher Education Funding Council which requires compliance with the Statement of Recommended Practice: Accounting for Further and Higher Education (2007), the 2014-15 Government Financial Reporting Manual (FReM) issued by the Scottish Government, and in accordance with applicable accounting standards. They conform to the Accounts Direction and other guidance issued by the Scottish Funding Council.

Basis of accounting

The financial statements are prepared under the historical cost convention, modified by the revaluation of certain fixed assets.

The accounting policies contained in the FReM apply International Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be the most appropriate to the College for the purposes of giving a true and fair view has been selected. The particular policies adopted by the College in dealing with items that are considered to be material to the financial statements are set out below.

Recognition of income

Income from SFC recurrent grant has been recognised on a time basis to match the College's performance for the period in towards the SFC Outcome Agreement targets for the 2013/14 and 2014/15 academic years.

Income from other grants, contracts, tuition fees and other services rendered is included to the extent of completion of the contract or service concerned.

Income from donations is credited to the income and expenditure account in the year in which it is received, unless specific restrictions apply.

Income from short-term deposits and endowments is credited to the income and expenditure account in the period in which it is earned.

Fixed assets**Tangible assets*****Land and buildings***

The majority of the College's buildings being specialised buildings, open market value is not an appropriate basis of valuation. Land and buildings are therefore valued on the basis of depreciated replacement cost with the exception of the Catherinefield building which has been valued on an open market value. Land is not depreciated and buildings are depreciated over their estimated life as identified by the valuer.

Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and released to income and expenditure account over the estimated life of the building on a basis consistent with the depreciation policy.

Finance costs, which are directly attributable to the construction of land and buildings, are capitalised as part of the cost of those assets.

A review for impairment of tangible fixed assets is carried out if events change or if changes in circumstances indicate that the carrying value of the tangible fixed assets may not be recoverable.

Assets under construction are accounted for at cost, based on the value of architects' certificates and other direct costs, incurred to 31 July. They are not depreciated until they are brought into use.

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets it is charged to the income and expenditure account in the period it is incurred, unless it meets one of the following criteria, in which case it is capitalised and depreciated on the relevant basis:

- Where the subsequent expenditure provides an enhancement of the economic benefits of the tangible fixed asset in excess of the previously assessed standard of performance;
- Where a component of the tangible fixed asset that has been treated separately for depreciation purposes and depreciated over its individual useful economic life, is replaced or restored; or
- Where the subsequent expenditure relates to a major inspection or overhaul of a tangible fixed asset that restores the economic benefits of the asset that have been consumed by the entity and have already been reflected in depreciation.

Notes to the Financial Statements (continued)**1 Statement of Principal Accounting Policies (continued)****Equipment**

Equipment costing less than £10,000 per individual item and motor vehicles costing less than £5,000 are written off to income and expenditure account in the year of acquisition. All other equipment and vehicles are capitalised and depreciated in accordance with the depreciation policy.

Equipment is carried at depreciated historic cost, which is used as a proxy for fair value. Depreciated historic cost is deemed to be more appropriate than revaluing equipment as it is common for such assets to reduce in value, rather than increase, as they are used by the College.

Where items of equipment are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and released to income and expenditure account over the estimated life of the asset on a basis consistent with the depreciation policy.

Depreciation

Depreciation is provided to write off the cost or valuation of tangible fixed assets on a straight-line basis over the expected useful lives of the assets.

i) Buildings	10 to 60 years
ii) Leasehold	length of lease
iii) Furniture, equipment and vehicles	3 to 10 years

Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright and are capitalised at their fair value at the inception of the lease and depreciated over the shorter of the lease term or the useful economic lives of equivalently owned assets. The capital element outstanding is shown as obligations under finance leases.

The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Where finance lease payments are funded in full from funding council capital equipment grants, the associated assets are designated as grant-funded assets.

Rental costs in respect of operating leases are charged to income and expenditure account on a straight line basis.

Revaluation reserve

Surpluses arising on the revaluation of the College's properties are transferred to the revaluation reserve. Additional depreciation charged on the revalued amount of these assets is transferred from revaluation reserve to income and expenditure account together with any surplus or deficit on disposal.

Maintenance of premises

The costs of maintenance are charged to the income and expenditure account in the period in which they are incurred.

Liquid resources

Liquid resources include sums on short-term deposits with recognised banks, building societies and government securities.

Taxation

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

Notes to the Financial Statements (continued)**1 Statement of Principal Accounting Policies (continued)****Provisions**

The College provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated cash flows are discounted using the discount rate prescribed by the Scottish Funding Council.

Unfunded pensions are accounted for under FRS 12.

Agency arrangements

The College acts as an agent in the collection and payment of certain Student Support Funds. These funds are excluded from the College Income and Expenditure Account, and movements have been disclosed in the notes to the accounts. Where the College has more discretion in the manner in which specific funds are disbursed, and those funds do not meet the definition of agency funds, the income and expenditure relating to those funds are shown in the College Income and Expenditure Account.

Retirement Benefits

All new members of staff have the option of joining a pension scheme. The schemes currently open to new members of staff are the Dumfries and Galloway Council Pension Fund and the Scottish Teachers' Superannuation Scheme. Existing employees are entitled to maintain their membership of the Scottish Teachers' Superannuation Scheme.

Dumfries and Galloway Council Pension Fund

The Dumfries and Galloway Council Pension Fund is a pension scheme providing benefits based on final pensionable pay. The assets and liabilities of the scheme are held separately from those of the College. Pension scheme assets are measured using bid values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Contributions to the Scheme are determined by an actuary on the basis of triennial valuations using the Age Attained Method. Variations from regular cost are spread over the expected average remaining working lifetime of members of the schemes, after making allowances for future withdrawals. The amount charged to the income and expenditure account represents the service cost expected to arise from employee service in the current year.

Scottish Teachers' Superannuation Scheme (STSS)

The College participates in the Scottish Teachers' Superannuation Scheme pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the College. The College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the year.

Leased Assets

Leasing agreements which transfer to the College substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright and are capitalised at the present value of minimum lease payments at the inception of the lease and depreciated over the shorter of the lease term or the useful economic lives of equivalently owned assets. The capital element outstanding is shown as obligations under finance leases.

The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Where finance lease payments are funded in full from funding council capital equipment grants, the associated assets are designated as grant-funded assets.

Rental costs in respect of operating leases are charged to income and expenditure account on a straight line basis.

Notes to the Financial Statements (continued)

		Period ended 31 July	Period ended 31 March
	Note	2015	2014
		£000	£000
2 SFC Grants			
FE recurrent grant (including fee waiver)		11,082	5,554
FE and HE childcare funds		374	123
Release of deferred capital grants	18	888	445
Infrastructure grant		379	791
Other SFC grants		183	149
Total		12,906	7,062
3 Tuition Fees and education contracts			
FE fees - UK		448	230
HE fees		919	452
SDS contracts		517	219
Education contracts		2	4
Other contracts		385	306
Total		2,271	1,211
4 Other grant income			
European funds		84	150
Release of deferred capital grants	18	164	77
Scottish Colleges Foundation grant (Note 18)		820	0
Other grants		68	56
Total		1,136	283
5 Other operating income			
Residences and catering		486	310
Other income-generating activities		34	16
Other income		49	26
Total		569	352

Notes to the Financial Statements (continued)

	Note	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
6 Endowment and investment income			
Bank interest		16	17
Net return on pension asset/ liability	25	77	7
Total		93	24
7 Staff costs			
Wages and salaries		7,711	4,062
Social security costs		527	265
Past service credit (note 25)		0	0
Other pension costs (including FRS 17 adjustments of £363k (2014 - £95k) note 25)		1,640	677
Staff costs excluding exceptional costs		9,878	5,004
Exceptional costs - severance costs		0	0
Staff costs including exceptional costs		9,878	5,004
Academic/ Teaching departments		4,988	2,546
Academic/ Teaching services		1,096	455
Administration and central services		3,109	1,735
Premises		531	212
Other expenditure		154	56
Catering and residences		0	0
Total		9,878	5,004
The average number of full-time equivalent employees, including higher paid employees, during the year was:			
	No.	No.	
Academic/ Teaching departments	82	84	
Academic/ Teaching services	19	16	
Administration and central services	92	86	
Premises	13	13	
Other expenditure	3	3	
Catering and residences	0	0	
Total	209	202	

Notes to the Financial Statements (continued)

7 Staff costs (continued)

The number of staff, including senior post-holders and the Principal, who received total annual emoluments (excluding pension contributions) in the following ranges were:

	Period ended 31 July 2015		Period ended 31 March 2014	
	Number senior post- holders	Number other staff	Number senior post-holders	Number other staff
£50,001 to £60,000 per annum	1	0	3	0
£60,001 to £70,000 per annum	2	0	1	0
£70,001 to £80,000 per annum	0	0	0	0
£80,001 to £90,000 per annum	0	0	1	0
£90,001 to £100,000 per annum	1	0	0	0
£100,001 to £110,000 per annum	0	0	0	0
	<u>4</u>	<u>0</u>	<u>5</u>	<u>0</u>

8 Senior post-holders' emoluments

The number of senior post-holders, including the Principal was:

2015 No.	2014 No.
<u>4</u>	<u>5</u>

Senior post-holders' emoluments are made up as follows:

	Period ended 31 July 2015	Period ended 31 March 2014
	£	£
Salaries	383,118	216,691
Benefits in kind	0	0
Pension contributions	69,749	38,609
Total emoluments	<u>452,867</u>	<u>255,300</u>

The above emoluments include amounts payable to the Principal, who is also the highest paid senior post-holder, of:

	£	£
Salary (including holiday pay)	122,100	60,000
Benefits in kind	0	0
	<u>122,100</u>	<u>60,000</u>
Pension contributions	<u>23,975</u>	<u>11,647</u>

The Principal and two other senior post-holder were members of the Local Government pension Scheme and one senior post-holder was a member of the Scottish Public Pensions Agency. All pension contributions were paid at the same rate as for other members of staff.

The members of the Board of Management, other than the Principal, Regional Chairman, and staff members, did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties. Travel expenses reimbursed to four members of the Board of Management during the year amounted to £565.

Notes to the Financial Statements (continued)

	Period ended 31 July 2015	Period ended 31 March 2014
9 Other operating expenses	£000	£000
Teaching departments	1,155	797
Administration and central services	1,454	1,036
Premises costs (including additional Lennartz charge £90,000. 2014 - credit - £111,000, note 16)	1,277	184
Planned maintenance	1,335	144
Other employee related costs	215	67
(Gain)/ Loss on disposal of fixed assets	(16)	(2)
Agency Staff Costs	61	38
Other income generating activities	0	0
Residences and catering	516	313
Overspend on student support funds	5	95
	6,002	2,672
Transfer to Arms Length Foundation	18	2,120
Total	6,020	4,792
Other operating costs include:		
Auditors' remuneration		
- external audit of these financial statements	15	16
-internal audit services	24	13
- other services	0	7
Hire of plant and machinery - operating leases	106	57
Hire of other assets - operating leases	0	0

The College is participating in the Scottish Colleges Foundation, an independent trust which was established with the purposes of supporting further and higher education colleges in Scotland. Total donations from the College to the Foundation in the period to 31 July 2015 amounted to £17,500 (2014 - £2,120,000). The donation of £2,120,000 in the period to 31 March 2014 represented a transfer to the Foundation of cash reserves which had been built up by the College over a number of years, in order to try to mitigate the impact of the re-classification of the Scottish College sector on Dumfries and Galloway College. The Foundation has provided financial support for Hospitality developments during the current financial period, as detailed at Note 18, and the College will be able to apply for funding for project future projects which will not be able to be met from reserves after 1 April 2014 due to re-classification.

A grant was received from the Foundation during the period, which was used to fund Hospitality developments as detailed at Note 18.

A further consequence of reclassification of the College as a central government body is that, from 1 April 2014, while the College continues to prepare accounts under the FE/HE Statement of Recommended Practice, it is now also required to comply with Central Government budgeting rules. This affects, among other things, the way in which non-depreciation charges are treated. For the 2014/15 budget period this has meant that the College received cash of £387,000 which had been earmarked against depreciation. Without approval to spend this cash, moving the College's Income and Expenditure account into a deficit position, it would have been effectively frozen. The Scottish Funding Council issued guidance to the College on this matter on 30 January 2015 (SFC Announcement SFC/AN/03/2015) which provided approval for that cash to be applied to student support, loan repayments and deliver improved services to learners.

The impact of the above has contributed £296,000 to the reported deficit for the 2014/15 financial period. However, the Scottish Funding Council has confirmed (in its letter to the College on 30 March 2015) that a deficit resulting from the College following its 30 January 2015 guidance should be treated as a 'technical' deficit and should not be interpreted, on its own, as a challenge to the College's ongoing financial sustainability. This position has been agreed with Audit Scotland and the Scottish Government.

Notes to the Financial Statements (continued)

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
10 Interest payable		
Net interest cost on pension liability (note 25)	<u>0</u>	<u>0</u>

11 Taxation

The Board does not consider that the College was liable for any corporation tax arising out of its activities during the year.

12 Tangible Fixed Assets

	Land and Buildings £000	Equipment £000	Motor Vehicles £000	Total £000
Cost or valuation				
At 1 April 2014	41,498	310	267	42,075
Additions	679	35	85	799
Disposals	0	(8)	(99)	(107)
Transfers	0	0	0	0
Revaluation adjustment	(3,968)	0	0	(3,968)
At 31 July 2015	<u>38,209</u>	<u>337</u>	<u>253</u>	<u>38,799</u>
Depreciation				
At 1 April 2014	1,031	277	246	1,554
Provided during period	1,544	15	20	1,579
On disposals	0	(6)	(99)	(105)
Revaluation adjustment	(2,182)	0	0	(2,182)
At 31 July 2015	<u>393</u>	<u>286</u>	<u>167</u>	<u>846</u>
NBV at 1 April 2014	<u>40,467</u>	<u>33</u>	<u>21</u>	<u>40,521</u>
NBV at 31 July 2015	<u>37,816</u>	<u>51</u>	<u>86</u>	<u>37,953</u>
Inherited	3,950	0	0	3,950
Financed by capital grant	33,866	51	80	33,997
Other	0	0	6	6
At 31 July 2015	<u>37,816</u>	<u>51</u>	<u>86</u>	<u>37,953</u>

Land and buildings were revalued at 31st July 2015 by DM Hall, Chartered Surveyors in the capacity of independent valuer. The basis of valuation adopted was depreciated replacement cost for all but the Catherinefield Nursery which was valued at Market Value, and the valuation was made in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual.

Inherited Land and Buildings with a net book value of £37,816,000 have been partially financed by exchequer funds. Should these assets be sold, the College may be liable, under the terms of the Financial Memorandum with the Council, to surrender the proceeds.

Land and buildings additions during the period represent the capital element on completion of Hospitality developments. The project has provided Hospitality facilities in the Dumfries campus, including a training kitchen and restaurant, in order to expand the curriculum and in response to regional demand for training in that area. The Scottish Colleges Foundation provided grant funding for the project, as detailed at Note 18.

Notes to the Financial Statements (continued)

12 Tangible Fixed Assets (continued)

If inherited land and buildings had not been revalued they would have been included at the following amounts:

	£000
Cost	0
Aggregate depreciation based on cost	<u>0</u>
	<u>0</u>

13 Debtors: Amounts falling due within one year

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Trade debtors - net of provision for doubtful debts	56	121
European Funding	0	0
Prepayments and accrued income	<u>241</u>	<u>880</u>
	<u>297</u>	<u>1,001</u>

The movement in prepayments and accrued income from 31 March 2014 reflects the change in accounting period end, which co-incides with the 2014/15 academic year at 31 July 2015. The comparative figures include grant funding of £548,000 which was earned for the portion of the 2013/14 academic year up to 31 March 2014 but unpaid.

14 Cash at Bank and in hand

	31 July 2015 £000	31 March 2014 £000
Cash at bank and in hand	<u>2,163</u>	<u>2,127</u>

The College receives certain Funding Council grants on an agency basis. The funds are available solely for students and the College acts only as paying agent. The funds held in trust are reflected on the balance sheet as both cash and a current liability. The following agency funds are included in the cash at bank and in hand at the year end:

Cash at bank and in hand (note 15)	<u>251</u>	<u>21</u>
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	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
15 Creditors: Amounts falling due within one year	£000	£000
Trade creditors	19	134
VAT	96	61
HMRC Lennartz Scheme	373	355
Other taxation and social security	118	138
Pension	115	122
Contract retentions	142	120
Accruals and deferred income	761	1,513
Bursaries and Access funds for future disbursement (note 14)	<u>251</u>	<u>21</u>
	<u>1,875</u>	<u>2,464</u>

The movement in accruals and deferred income from 31 March 2014 reflects the change in accounting period end, which co-incides with the 2014/15 academic year at 31 July 2015. The comparative figures include expenditure accrued of £366,000 which was incurred for the portion of the 2013/14 academic year up to 31 March 2014 but unpaid at that date as well as fees received which relate to the remainder of the 2013-14 academic year of £142,000.

Notes to the Financial Statements (continued)

16 Creditors: Amounts falling due after more than one year

	Period ended 31 July 2015	Period ended 31 March 2014
	£000	£000
HMRC Lennartz Scheme	<u>745</u>	<u>1,184</u>

The estimated future liability under the Lennartz agreement was recalculated during the period, and showed a net increase of £90,000 which has been charged within premises costs (note 9).

17 Provisions for liabilities and charges

	Early retirement pension costs	Other	2014-15 Total	2013-14 Total
At 1 April 2014	741	9	750	959
Expenditure in the period	(64)	0	(64)	(32)
Additional provision required in period	95	0	95	(13)
Revaluation adjustment	0	0	0	(179)
Interest charged	15	0	15	15
At 31 July 2015	<u>787</u>	<u>9</u>	<u>796</u>	<u>750</u>

The pension provision has been revalued using actuarial tables supplied by the Scottish Funding Council. The net interest rate applied was 1%.

Other provisions relate to redundancy costs.

18 Deferred Capital Grants

	SFC £000	Other £000	Total £000
At 1 April 2014			
Land and Buildings	22,385	4,296	26,681
Equipment	264	35	299
	<u>22,649</u>	<u>4,331</u>	<u>26,980</u>

Cash Receivable

Land and Buildings	7	672	679
Equipment	120	0	120
	<u>127</u>	<u>672</u>	<u>799</u>

Released to Income and Expenditure Account

Land and Buildings	(596)	(156)	(752)
Equipment	(292)	(8)	(300)
	<u>(888)</u>	<u>(164)</u>	<u>(1,052)</u>

At 31 July 2015

Land and Buildings	21,796	4,812	26,608
Equipment	92	27	119
	<u>21,888</u>	<u>4,839</u>	<u>26,727</u>

A grant of £1,492,000 was received from the Scottish Colleges Foundation during the period which was used to fund the College's Hospitality project, together with a portion of SFC grants. Total costs of the development, which includes the construction of a new training restaurant and kitchen, amounted to £2,011,000. Of the total expenditure, £679,000 represents capital costs which are shown as buildings additions at note 12, and revenue costs which are included in planned maintenance costs at note 9. The capital portion of the grant received from the Scottish Colleges Foundation of £672,000 is shown above, and the corresponding revenue portion of the grant amounts to £820,000 and is shown as other grant income at Note 4.

Notes to the Financial Statements (continued)

19 Reserves	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Revaluation Reserve		
At 1 April 2014	6,614	6,746
Revaluations in the period	(1,785)	0
Transfer to Income & expenditure account in respect of:		
Depreciation on revalued assets	(264)	(132)
At 31 July 2015	4,565	6,614
General Reserve (Income and expenditure account including pension reserve)		
At 1 April 2014	1,729	4,314
(Deficit)/ Surplus for the period	(502)	(1,651)
Transfer from revaluation reserve	264	132
Actuarial (losses)/ gains on pension scheme	(1,005)	(1,066)
At 31 July 2015	486	1,729
Represented by:		
Income & expenditure account		
At 1 April 2014	5,657	7,088
(Deficit)/ Surplus for the period	(502)	(1,651)
Transfer to pension reserve	286	88
Transfer from revaluation reserve	264	132
	5,705	5,657
Pension Reserve		
At 1 April 2014	(3,928)	(2,774)
Current service cost	(1,045)	(377)
Employer contributions	682	282
Past service costs	0	0
Gains/ (losses) on curtailments and settlements	0	0
Net return on assets	77	7
Transfer to income & expenditure	(286)	(88)
Actuarial (losses)/ gains	(1,005)	(1,066)
At 31 July 2015	(5,219)	(3,928)
Summary		
Income & expenditure account	5,705	5,657
Pensions reserve	(5,219)	(3,928)
At 31 July 2015	486	1,729

Notes to the Financial Statements (continued)

20 Reconciliation of operating surplus/(deficit) to net cash flow from operating activities	Note	Period ended 31 July 2015	Period ended 31 March 2014
		£000	£000
Operating (deficit)/ surplus after depreciation of assets at valuation and tax		(502)	(1,651)
Pension costs	25	363	95
Depreciation	12	1,579	787
(Gain)/net loss on disposal of fixed assets	9,12	(16)	(2)
Deferred capital grants released to income	18	(1,052)	(522)
Decrease/ (increase) in debtors	13	704	(449)
Decrease in creditors	15,16	(1,027)	(539)
Increase/ (decrease) in provisions	17	46	(209)
Interest receivable - bank interest	6	(16)	(17)
Net return on pension liability	19	(77)	(7)
Net cash (outflow)/ inflow from operating activities		<u>2</u>	<u>(2,514)</u>
21 Returns on investments and servicing of finance			
Interest received	6	16	17
Interest element of finance lease repayments		0	0
Net cash inflow from returns on investments and servicing of finance		<u>16</u>	<u>17</u>
22 Capital expenditure			
Purchase of tangible fixed assets	12	(799)	0
Sales of tangible fixed assets		18	2
Deferred capital grants received	18	799	0
Net cash inflow/(outflow) from capital expenditure		<u>18</u>	<u>2</u>

Notes to the Financial Statements (continued)

23 Analysis of Net Funds

	At 1 April 2014	Cash Flows	Other Changes	At 31 July 2015
	£000	£000	£000	£000
Cash	2,127	36	0	2,163
Finance lease/hire purchase contracts	0	0	0	0
TOTAL	2,127	36	0	2,163

24 Lease commitments

Period ended 31 July 2015	Period ended 31 March 2014
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The annual commitments under operating leases for equipment are as follows:

Expiry - within one year	3	3
- within two to five years	45	44
- after five years	0	0

Notes to the Financial Statements (continued)**25 Pensions and similar obligations**

The College's employees belong to two principal pension schemes, the Scottish Public Pensions Agency (SPPA) and the Local Government Pension Scheme (LGPS) - The Dumfries and Galloway Council Pension Fund.

The total pension costs for the institution was :

		16 months to July 2015 £000	8 months to March 2014 £000
Contribution to SPPA		580	276
Contribution to LGPS		682	293
Pension costs as a result of implementing FRS 17	19	363	95
Total pension cost		1,625	664

Employer contribution rates during the period were:

SPPA - 14.9%

LGPS - 20% increased to 20.3% from 1 April 2015

The Scottish Public Pensions Agency

College lecturing staff are entitled to become members of the Scottish Teachers' Superannuation Scheme. The latest actuarial valuation of this scheme was carried out as at 31 March 2005.

The assumptions which have the most significant effect on the valuation and other relevant data are as follows:

Rate of return on investments in excess of rate of increase in salaries	2.0%
Rate of return on investments in excess of rate of increase in pensions	3.5%
Market value of the assets as at 31 March 2005	£18,474m

The actuarial value of the SPPA scheme at 31 March 2005 showed a deficiency of £836m, which requires a supplementary provision by all members of 3.15% per annum for a period of 15 years.

The College is unable to identify its share of the underlying assets and liabilities in the SPPA scheme. Consequently, in line with the requirements of FRS 17 - Retirement Benefits, the College accounts for contributions to this scheme as if it were a defined contribution scheme.

The Local Government Pension Scheme (LGPS)

The LGPS is a defined benefit scheme, with the assets held in separate trustee administered funds.

The triennial valuation of the Dumfries and Galloway Council Pension Fund was carried out as at 31 March 2014 by Hymans Robertson LLP. The valuation for Dumfries and Galloway College's participation in the Dumfries and Galloway Council Pension Fund was updated by Hymans Robertson as at 31 July 2015. The assumptions that have the most significant effect on the valuation and other relevant data at 31 July 2015 are as follows :

	31 July 2015 % p.a.	31 March 2014 % p.a.
Pension Increase Rate	2.6%	2.8%
Salary Increase Rate	4.5%	5.1%
Expected Return on Assets	3.6%	5.7%
Discount Rate	3.6%	4.6%

Life expectancy is based on the S1NMA and S1NFA year of birth tables with medium cohort improvements and a 1% p.a. underpin, applied from 2008, and are the same as those used in the previous accounting period.

Notes to the Financial Statements (continued)

25 Pensions and similar obligations (continued)

Local Government Pension Scheme

	Period ended 31 July 2015	Period ended 31 March 2014
	£000	£000
Fair value of plan assets	16,191	13,366
Present value of funded defined benefit obligations	(21,387)	(17,269)
	(5,196)	(3,903)
Present value of unfunded defined benefit obligations	(23)	(25)
Deficit	(5,219)	(3,928)

Movements in present value of defined benefit obligation

At 1 April 2014	17,294	15,440
Movement in year :		
Current service cost	1,045	377
Past service costs relating to retrospective changes to members' benefits	0	0
Past service (gains) in respect of future pension increases	0	0
Interest cost	1,022	473
Curtailment	0	0
Actuarial gains/(losses)	2,258	1,084
Contributions by members	211	85
Benefits paid	(420)	(165)
At 31 July 2015	21,410	17,294

Movements in fair value of plan assets

At 1 April 2014	13,366	12,666
Expected return on plan assets	1,099	480
Actuarial gains/(losses)	1,253	18
Contributions by employer	682	282
Contributions by members	211	85
Benefits paid	(420)	(165)
At 31 July 2015	16,191	13,366

Expense recognised in the income and expenditure account

Current service cost	1,045	377
Losses on settlements and curtailments	0	0
Past service cost/(gain)	0	0
Interest on defined benefit pension plan obligation	1,022	473
Expected return on defined benefit pension plan assets	(1,099)	(480)
Total	968	370

The expense is recognised in the following line items in the income and expenditure account:

Staff costs	1,045	377
Investment income	(77)	(7)
Interest costs	0	0
	968	370

Notes to the Financial Statements (continued)

25 Pensions and similar obligations (continued)

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Analysis of the amount recognised in the statement of total recognised gains and losses (STRGL):		
Actual return less expected return on pension assets	1,253	18
Change in financial assumptions underlying the scheme liabilities	(2,258)	(1,084)
Actuarial (loss)/ gain recognised in the STRGL	<u>(1,005)</u>	<u>(1,066)</u>

The fair value of the plan assets and return on those assets were as follows:

	2015 Fair value £000	2014 Fair value £000
Equities	12,143	10,025
Corporate bonds	2,429	2,005
Property	1,619	1,069
Other	0	267
	<u>16,191</u>	<u>13,366</u>
Actual return on plan assets	<u>1,524</u>	<u>498</u>

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

The Actuarial report at 31 July 2015 has highlighted that the pension deficit has increased due to falling real bond yields which has been partially offset by strong asset returns. The projected defined benefit cost for 2015-16 has also risen due to falling real bond yields.

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	As at 31/07/15 %	As at 31/03/14 %
Discount rate	3.60%	4.30%
Expected rate of return on plan assets	3.60%	6.00%
Future salary increases	4.50%	5.10%
Inflation/ pension rate increase	2.60%	2.80%

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old person to live for a number of years as follows:

- Current pensioner aged 65: 23 years (male), 25.6 years (female).
- Future retiree upon reaching 65: 24.9 years (male), 27.7 years (female).

Notes to the Financial Statements (continued)

25 Pensions and similar obligations (continued)

History of plans

The history of the plans for the current and prior periods is as follows:

<i>Balance sheet</i>	Period ended 31/07/15 £000	Period ended 31/03/14 £000	Year ended 31/07/13 £000	Year ended 31/07/12 £000	Year ended 31/07/11 £000
Present value of scheme liabilities	(21,387)	(17,269)	(15,415)	(14,127)	(12,352)
Present value of unfunded liabilities	(23)	(25)	(25)	(25)	(22)
Fair value of scheme assets	16,191	13,366	12,666	11,033	10,569
Deficit/ surplus	<u>(5,219)</u>	<u>(3,928)</u>	<u>(2,774)</u>	<u>(3,119)</u>	<u>(1,805)</u>
<i>Experience adjustments</i>					
Experience adjustments on scheme liabilities	(796)	5	0	675	(1)
Experience adjustments on scheme assets	1,253	18	810	(607)	453
	<u>457</u>	<u>23</u>	<u>810</u>	<u>68</u>	<u>452</u>

The College expects to contribute approximately £544,000 to the scheme in the next financial year.

26 Related Party Transactions

The Board of Management of Dumfries and Galloway College is a body incorporated under the Further and Higher Education (Scotland) Act 1992 and is funded by the Scottish Funding Council (SFC).

SFC and the Scottish Executive Enterprise and Lifelong Learning Department (SEELLD) are regarded as related parties. During the year Dumfries and Galloway College had various material transactions with these bodies and with other entities for which they are either the Funding Council or are regarded as the sponsor Department, e.g. Student Awards Agency for Scotland, and a number of other colleges and higher education institutions.

Due to the nature of the College's operations and the composition of its Board of Management being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the Board of Management may have an interest. All transactions involving organisations in which a member of the Board of Management may have a material interest are conducted at arm's length and in accordance with normal project and procurement procedures.

During the year under review, the College had no transactions with non-public bodies in which a member of the Board of Management has an interest and which, in aggregate, exceeded £5,000 except as disclosed below.

The College had transactions during the year, or worked in partnership with, the following publicly funded or representative bodies in which members of the Board of Management hold, or held, official positions.

Member	Organisation	Position
J. Henderson	Crichton Foundation	Appointed Trustee (Representative of Dumfries and Galloway College)
H. Carr	Dumfries and Galloway Housing Partnership	Director of Finance
K. McGahan	William Waugh & Sons (Builders) Ltd	Finance Director

Notes to the Financial Statements (continued)

26 Related Party Transactions (continued)

The Crichton Foundation has previously provided grant funding towards the Henry Duncan building, which forms part of the Crichton Campus. During the period ended 31 July 2015 the Crichton Foundation provided grant funding of £10,000 for student support, which was fully disbursed to students by the College during the period. In addition, £500 was invoiced to Crichton Foundation in respect of a contribution to the annual College Award Ceremony. No balances were outstanding at 31 July 2015.

The College provided training courses to Dumfries and Galloway Housing Partnership during the period to 31 July 2015. Invoices to Dumfries and Galloway Housing Partnership amounted to £47,359. No balances were due to the College from Dumfries and Galloway Housing Partnership at 31 July 2015.

The College has appointed William Waugh & Sons (Builders) Ltd for various maintenance works during the period, following tender exercises in line with standard College procurement procedures. Invoices from William Waugh & Sons during the period amounted to £90,465. No balances were due to William Waugh by the College at 31 July 2015.

The members of the Board of Management, other than the Principal, Regional College Chair, and staff members, did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties. Travel expenses reimbursed to four members of the Board of Management during the year amounted to £565.

27 FE Bursaries and other Student Support Funds

	FE Bursary	EMA's	Other	Period ended 31 July 2015	Period ended 31 March 2014
	£000	£000	£000	£000	£000
Balance brought forward	0	0	0	0	113
Allocation received in period (including interest)	2,635	351	189	3,175	1,664
	<u>2,635</u>	<u>351</u>	<u>189</u>	<u>3,175</u>	<u>1,777</u>
Expenditure	(2,312)	(351)	(208)	(2,871)	(1,750)
Repayable to Funding Council as Clawback	0	0	0	0	(3)
College Contribution to funds	0	0	13	13	26
Virements to FE and HE Childcare and FE Discretionary funds	(84)	0	6	(78)	0
Balance Carried forward	<u>239</u>	<u>0</u>	<u>0</u>	<u>239</u>	<u>50</u>
Represented by:					
Repayable to Funding Council as Clawback	239	0	0	239	0
Retained by College for Students	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>50</u>
	<u>239</u>	<u>0</u>	<u>0</u>	<u>239</u>	<u>50</u>

The student support grants detailed above are available solely for students, the College acting only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

Notes to the Financial Statements (continued)

28 FE and HE Childcare Funds

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Balance brought forward	0	7
Allocation received in period	296	116
	<u>296</u>	<u>123</u>
Expenditure	(374)	(214)
Repayable to Funding Council as Clawback	0	0
Virements from FE Bursary	78	0
College contribution to funds	0	91
Balance Carried forward	<u>0</u>	<u>0</u>
Represented by:		
Repayable to Funding Council as Clawback	0	0
Retained by College for Students	0	0
	<u>0</u>	<u>0</u>

Childcare Fund transactions are included within the College Income & Expenditure account in accordance with accounts direction from SFC, as the College has more discretion in the manner in which these funds are disbursed.

29 Capital Commitments

	Period ended 31 July 2015 £000	Period ended 31 March 2014 £000
Contracted for at 31 July 2015 (31 March 2014)	<u>0</u>	<u>0</u>

30 Post Balance Sheet Events

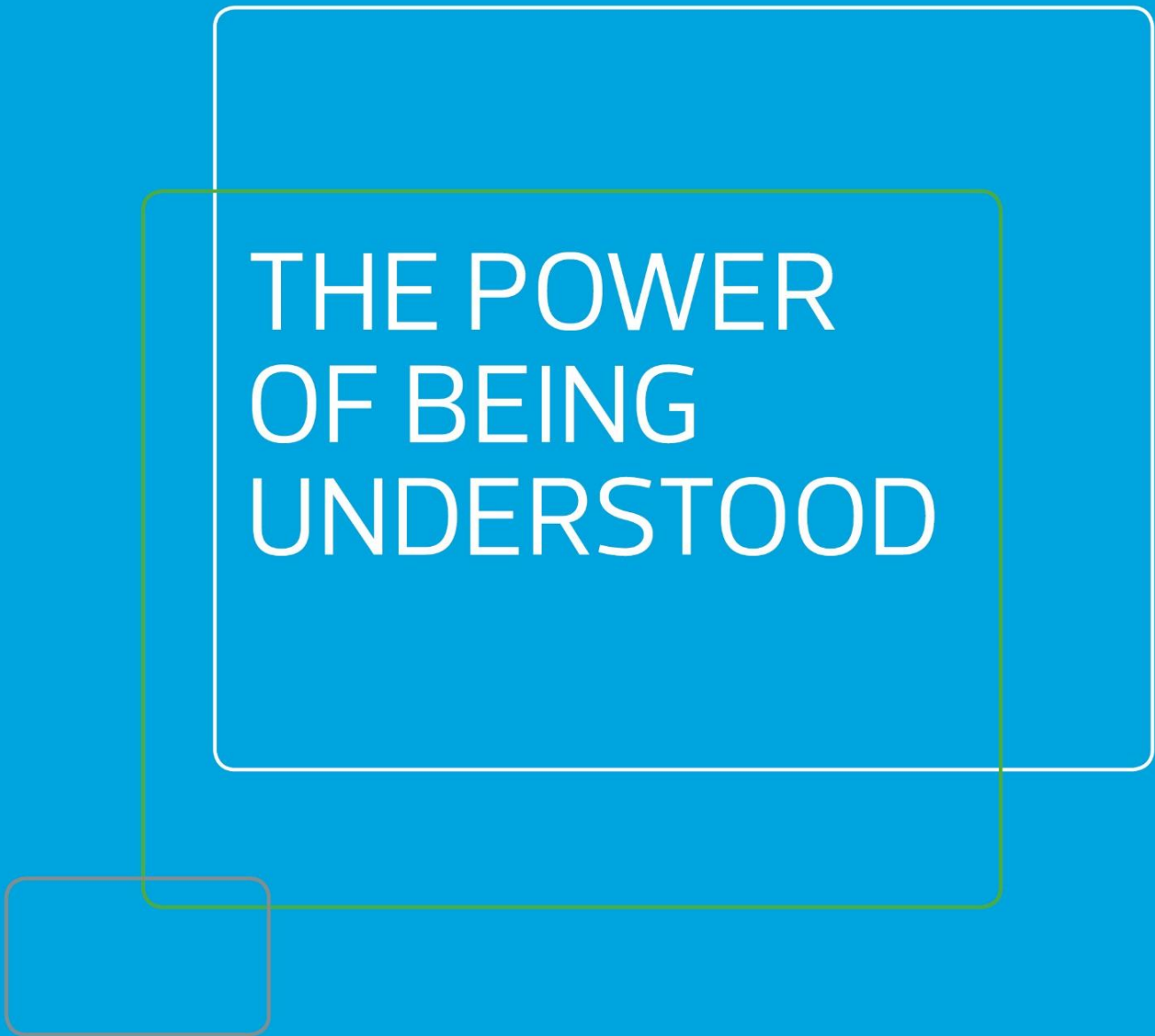
There are no post balance sheet events.

31 Contingent Liabilities

The College had no contingent liabilities at 31 July 2015 and 31 March 2014.

32 Comparatives

The comparative figures relate to the period 1 August 2013 to 31 March 2014.



THE POWER OF BEING UNDERSTOOD

DUMFRIES AND GALLOWAY COLLEGE

Student Activity Data (Weighted SUMs)

FINAL

Internal Audit Report: 2.15/16

26 October 2015



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Debrief held	9 October 2015	Internal Audit team	Rob Barnett, Head of Internal Audit Lindsay Straughton, Manager Rakxa Parmar, Senior Auditor
Draft report issued	22 October 2015		
Responses received	26 October 2014		
Final report issued	26 October 2015	Client sponsor	Jannette Brown, Vice Principal
		Distribution	Jannette Brown, Vice Principal Angela Wells, Student Records Manager

As a practising member firm of the Institute of Chartered Accountants in England and Wales (ICAEW), we are subject to its ethical and other professional requirements which are detailed at <http://www.icaew.com/en/members/regulations-standards-and-guidance>.

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Therefore, the most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the risk management, governance and control processes reviewed within this assignment. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

This report is supplied on the understanding that it is solely for the use of the persons to whom it is addressed and for the purposes set out herein. Our work has been undertaken solely to prepare this report and state those matters that we have agreed to state to them. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any party other than the Board which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to our Client on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

1 EXECUTIVE SUMMARY

1.1 Background

Colleges are required to obtain from their internal auditors an independent opinion on the accuracy of the Further Education Statutory (FES) return to the Scottish Funding Council (SFC). In order to do this, internal auditors must assess the adequacy of the College's systems, procedures and controls which underpin the completion of the FES return.

Our review of Student Activity Data was conducted in accordance with the SFC's 2014/15 audit guidance for Colleges. It included a detailed review of the processes and controls in place relevant to the collection and recording of data, and testing of those controls in order to assess the accuracy of the data.

This included:

- Course data (non-fundable activities, classification of modes of provision and course coding);
- Student enrolments (including non-fundable students and infill students);
- Withdrawals;
- Attendance criteria and monitoring;
- Claims per student (multiple enrolments, related study, and extended learning support);
- Fee waiver;
- Open/distance learning and SUMs calculations; and
- Calculation of SUMs.

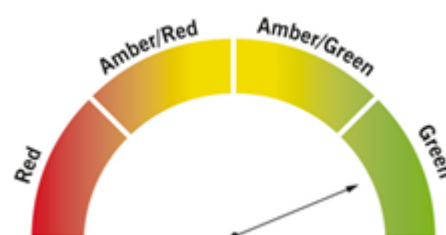
Since the review carried out for 2014/15, there has been no change to the systems and procedures in use by Dumfries and Galloway College.

We issued our audit certificate to the Scottish Funding Council in October 2015. The audit certificate is attached to this report at Appendix C.

1.2 Conclusion

Internal Audit Opinion:

Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage the identified risk(s) are suitably designed, consistently applied and operating effectively



Overall our review showed that the system and controls in place were adequate and were operating effectively to support the College's FES return in accordance with the 'SUMs Guidance'. Through review of source documentation and substantive testing we did not identify any anomalies resulting in no management actions being agreed.

1.3 Key findings

Review of the systems and procedures in place regarding student activity data established that a number of well-designed controls were in place to ensure compliance with the SFC Funding Guidance, and sample testing confirmed overall compliance with these controls, in particular:

- The process in place for identifying elements of non-fundable activity; non-fundable programmes and programmes which span more than one academic session.
- The recording and checking of student activity data to confirm the correct coding has been used for learners and courses leading to the correct codes being used in the SUMs allocation.
- The review of student attendance in line with the attendance criteria in the funding guidance.
- A review of the SUMs in line with the requirements of the various different provisions.
- The identifying of infill students and how these were appropriately coded.
- The process in place to ensure courses / programmes were consistently coded.

Full details of the testing carried out are included in section 3 of this report

1.4 Additional information to support our conclusion

Risk	Control design*	Non Compliance with controls*	Agreed actions		
			Low	Medium	High
Non-fundable activity is included in the SUM count.	- (1)	- (1)	-	-	-
Non-fundable students are included in the SUM count.	- (1)	- (1)	-	-	-
Programme is not classified correctly.	- (1)	- (1)	-	-	-
Infill student is counted as part of the programme which is being in-filled, rather than their individually tailored course, or is included as part of both courses.	- (1)	- (1)	-	-	-
Incorrect allocation of SUMs for students registered on ECDL courses.	- (1)	- (1)	-	-	-
Incorrect dominant programme group (DPG) code is allocated to programme.	- (1)	- (1)	-	-	-
Students included in the return do not meet attendance criteria.	- (4)	- (4)	-	-	-
Incorrect SUM value is claimed for the programme of study.	- (1)	- (1)	-	-	-
The college SUMs claim for an individual student exceeds the maximum claim allowed for a student per year.	- (2)	- (2)	-	-	-

ELS student classification is applied or claimed incorrectly.	- (2)	- (2)	-	-	-
College records more than one FT fee per student per year or College records fee waiver for students on ineligible courses.	- (1)	- (1)	-	-	-
Students who enrol on an open/distance learning programme do not continue with the programme.	- (1)	- (1)	-	-	-
Incorrect SUM value is claimed for collaborative provision.	- (1)	- (1)	-	-	-
Total			-	-	-

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

2 DETAILED FINDINGS

This report has been prepared by exception. Therefore, we have included in this section, only those risks of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
-----	---------	----------------------------------	---------------------------------	---------------------------------	----------	------------------------

Risk: Non-fundable activity is included in the SUM count.

1.1	<p>Offerings are pre-populated on the system and allocated a code depending on whether the offering is fundable or non-fundable.</p> <p>When a student is entered onto the system the course identified on the enrolment form is selected from a prepopulated drop down list.</p>	Yes	Yes	<p>A sample of 10 course offerings from the SUMs data report was selected and it was confirmed that they all were code 9 courses and therefore correctly included in the claim calculations.</p> <p>Through discussions with the Students Records Manager, we were advised that there were two programmes that spanned more than one academic year ;one ended in 2014/15 and the other is due to end in 2015/16.</p> <p>A check of the 10 sampled course SR1forms confirmed that where applicable, a form had been completed stating a maximum one year span.</p> <p>A review of the two courses which spanned two years confirmed that they had been identified as having a two year span and a review of the SUM for 2014/15 confirmed that the correct course element had been claimed for in the year.</p>	N/A	No management action required.
-----	---	-----	-----	--	-----	--------------------------------

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
-----	---------	----------------------------------	---------------------------------	---------------------------------	----------	------------------------

Risk: Non-fundable students are included in the SUM count.

2.1	<p>Students are coded on the enrolment form according to the category of funding eligibility.</p> <p>Code 36 students (overseas students) and bespoke course students are the only students who are non-fundable.</p> <p>When student enrolment details are entered onto the system, the system automatically identifies students coded as 36 and who have been allocated to a fundable course and excludes them from the SUMs claim.</p>	Yes	Yes	A sample of 25 non-fundable students studying overseas / bespoke course were selected and it was confirmed that these had been classified within the system correctly and they had not been included in the SUMs claim.	N/A	No management action required.
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Risk: Programme is not classified correctly.

3.1	<p>The College has a defined course coding structure made up of four characters.</p> <p>The mode of attendance is captured and details are entered onto the system when processing the student enrolment.</p>	Yes	Yes	A sample of 10 course offerings was reviewed and it was confirmed the course coding used by the College matched the FES Guidance code list G and that the mode of attendance had been correctly classified within the system.	N/A	No management action required.
-----	---	-----	-----	---	-----	--------------------------------

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
-----	---------	----------------------------------	---------------------------------	---------------------------------	----------	------------------------

Risk: Infill student is counted as part of the programme which is being in-filled, rather than their individually tailored course, or is included as part of both courses.

4.1	<p>Infill students are required to complete a separate enrolment form which is in addition to the standard full time enrolment form.</p> <p>The form captures details of the course, the start and end dates and fee details.</p> <p>Students are categorised on the system as infill and therefore the system only counts them on the return once.</p>	Yes	Yes	A sample of 10 infill students were selected both from the system and hardcopy forms and it was confirmed that each student had been correctly classified in the system and the information recorded for each student had been correctly input from the enrolment form.	N/A	No management action required.
-----	---	-----	-----	---	-----	--------------------------------

Risk: Incorrect allocation of SUMs for students registered on ECDL courses.

5.1	<p>An enrolment form is completed detailing the title of the course and the module to be completed. A separate enrolment form is completed for each module</p> <p>The information is entered onto the system and the total for each module is 0.57, therefore the total for the full 7 modules is less than the maximum of four SUMs.</p>	Yes	Yes	A sample of 10 course offerings was selected and it was confirmed that the classification of each student in the sample whether claiming for a full set of ECDL modules or not, that the maximum of four SUMs had not been exceeded.	N/A	No management action required.
-----	---	-----	-----	--	-----	--------------------------------

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
-----	---------	----------------------------------	---------------------------------	---------------------------------	----------	------------------------

Risk: Incorrect dominant programme group (DPG) code is allocated to programme.

6.1	FES 1 - Code list I is used to allocate the dominant programme group (DPG) code to each course/programme.	Yes	Yes	A sample of 20 course offerings was selected and it was confirmed that the classification of each course within the system was in line with the FES guidance code list I.	N/A	No management action required.
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Risk: Students included in the return do not meet attendance criteria.

7.1	Registers are completed by the Tutor at each session. The Tutor checks student attendance at the weekly tutorial as well as the student records department who check attendance for students under 100%.	Yes	Yes	For a sample of 15 registers testing confirmed that they had been completed by the Tutor for each session and were up to date. Discussions with the Student Records Manager confirmed that the Tutor checks student attendance at the weekly tutorial as well as the student records department who run a report each week checking attendance for students falling under 100%. Any low attendance had been followed up with the Tutor or the student.	N/A	No management action required.
-----	---	-----	-----	---	-----	--------------------------------

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
Risk: Incorrect SUM value is claimed for the programme of study.						
8.1	<p>Student records input the total course duration (in hours) divided by 40 (per the guidance) into the SITs system.</p> <p>The SUMs values are then calculated automatically by the system.</p>	Yes	Yes	<p>For a sample of 25 course hour calculations it was confirmed that in all cases they reconciled back to the SITs system.</p> <p>Review of the overall certified claim for WSUMs confirmed that it agreed with the total in the student records system.</p>	N/A	No management action required.
Risk: The college SUMs claim for an individual student exceeds the maximum claim allowed for a student per year.						
9.1	<p>Student Records download all student enrolments and check that where students have more than one enrolment, the SUMs claimed in total for that student is not more than the maximum claimable.</p> <p>Any over the maximum are adjusted on the enrolment screen (SUMs calculation is set to zero).</p>	Yes	Yes	A sample of 10 students who were attending more than one course offering was selected and it was confirmed that the College had not claimed more than the maximum SUMs for that student.	N/A	No management action required.
Risk: ELS student classification is applied or claimed incorrectly.						
10.1	<p>Course coding determines whether the course is a DPG 18 course and the system automatically adjusts the SUMs claim. Student records also review the enrolments report and check that any students on a DPG18 course who are also identified as receiving ELS are excluded from the SUMs claim.</p>	Yes	Yes	For a sample of 15 students with additional learning needs it was confirmed that these were either receiving extended learning support or were undertaking a DPG18 course and that this had been correctly recorded and captured in the SUMs claim calculations.	N/A	No management action required.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
Risk: College records more than one FT fee per student per year, or College records fee waiver for students on ineligible courses.						
11.1	<p>Fee payment details are recorded on the enrolment form. Where fee waiver is applicable the student must complete a fee waiver form.</p> <p>The student category is then recorded on the system.</p>	Yes	Yes	<p>A sample of 15 students in receipt of fee waiver was reviewed and it was confirmed that in all cases the student was eligible based on the guidance criteria, that evidence of eligibility had been provided to the College and that the student had been correctly classified on the system.</p>	N/A	No management action required.
Risk: Students who enrol on an open/distance learning programme do not continue with the programme.						
12.1	<p>The College has a member of staff responsible for distance learning who stays in contact with the students and tutors to confirm that they are continuing with the learning.</p> <p>The Open Learning Coordinator monitors that students are completing work on time.</p> <p>Admin support for the community work also monitor whether students are making progress on their programme of studies.</p>	Yes	Yes	<p>Testing for a sample of 10 distance learning students confirmed that there was evidence to confirm that the student remained on programme.</p> <p>Where a student had not submitted any work by the 2nd month after enrolment they had been sent a first reminder. They were then sent a second reminder after the 4th month where they had still not contacted the College or did not showing signs of progression.</p> <p>After 6 months the student was sent a 'Registration almost at an end' Letter (where applicable).</p> <p>Failure to contact the College one month after the final letter had resulted in automatic withdrawal.</p>	N/A	No management action required.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
Risk: Incorrect SUM value is claimed for collaborative provision.						
13.1	SR1 is completed for all courses and noted with full cost recovery then updated onto the system accordingly as 04 - source of funding and an N for core funding.	Yes	Yes	The College currently had no collaborative courses being run therefore we had not undertaken any testing.	N.A	No management action required.

APPENDIX A: SCOPE

Scope of the review

The scope of this review was to evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion.

The scope was planned to provide assurance on the controls and mitigations in place relating to the following Risks:

Objective of the area under review	Risks relevant to the scope of the review	Risk Source
The College has appropriate systems in place to ensure the data accuracy of the SUMs return.	Non-fundable activity is included in the SUM count.	SFC Guidance
	Non-fundable students are included in the SUM count.	
	Programme is not classified correctly.	
	Infill student is counted as part of the programme which is being in-filled, rather than their individually tailored course, or is included as part of both courses.	
	Incorrect allocation of SUMs for students registered on ECDL courses.	
	Incorrect dominant programme group (DPG) code is allocated to programme.	
	Students included in the return do not meet attendance criteria.	
	Incorrect SUM value is claimed for the programme of study.	
	The college SUMs claim for an individual student exceeds the maximum claim allowed for a student per year.	
	ELS student classification is applied or claimed incorrectly.	
	College records more than one FT fee per student per year, or College records fee waiver for students on ineligible courses.	
	Students who enrol on an open/distance learning programme do not continue with the programme.	
	Incorrect SUM value is claimed for collaborative provision.	

When planning the audit, the following areas for consideration and limitations were agreed:

Areas for reviewed as part of this review:

Procedures for identifying: elements of non-fundable activity; non-fundable programmes and programmes which span more than one academic session.

- We tested a sample of 10 courses/ programmes (including full-time, part-time, fixed tariffs and courses which span more than one year) to ensure that the SUMs treatment was correct and that SUMs have only been claimed once and in the correct year.

Procedures for identifying and eliminating non-fundable students from return.

- We tested a sample of 25 non-fundable students to ensure they were not included in the return as fundable.

Procedures for the classification of HE/FE programmes, full-time and other modes of provision.

- We tested a sample of 10 courses/ programmes to ensure they had been correctly classified in the return.

Procedures for identifying infill students and for determining the appropriate treatment of these students.

- We tested a sample of 10 infill students to confirm treatment was correct and that these students were counted only once on the return

Procedures in place to ensure courses/ programmes are consistently coded.

- We tested a sample of 20 modules within programmes to ensure consistency of coding within programmes.
- We compared the total WSUMs/total SUMs to confirm that the College weighting factor had been correctly calculated.
- How attendance was monitored and recorded, e.g. attendance register.
- We tested a sample of 15 registers to ensure that they were completed correctly and input in a timely manner.

Procedures for ensuring that students included in the return meet the attendance criteria.

- We tested a sample of 10 courses to ensure that the start, end and required dates had been calculated correctly.
- We tested a sample of 25 course enrolments (including online enrolments and part-time students) to check the supporting records and the exclusion of students from the return who did not meet the 25% rule.
- Where students were included in the return we confirmed that there is evidence of attendance after the required date.
- For a of 15 full-time students included in the return, whose withdrawal date was within two weeks after the SUMs qualifying date, we checked for attendance evidence and accuracy of recorded withdrawal against the required date.

Procedures for calculation of SUMs for all students.

- We tested a sample of 25 individual SUM calculations for accuracy, these included a sample of work based learning students.

Procedures for ensuring that the SUMs claimed per student did not exceed the maximum.

- We reviewed a sample of 15 students for whom related study had been claimed to ensure the claim was appropriately justified.
- We reviewed a sample of ten students undertaking more than one course and confirm that the SUMs did not exceed the maximum.
- We also reviewed a sample five students taking the full set of seven ECDL modules, to confirm that only four SUMs had been claimed, and five students who were not completing the full set of seven modules to confirm that only a proportion of the maximum four SUMs had been claimed.

Procedures for identifying and administering ELS student records.

- For a sample of 15 ELS students, we tested the availability and completeness of their PLSPs.
- For a sample of 15 additional support needs students, we ensured that the SUMs was based upon either ELS or DPG 18.

Fee waiver procedures.

- We tested a sample of 15 eligible students, to ensure that these students were only recorded where they were attending eligible programmes, and that the fee waivers for these students were accurately recorded and categorised.

Procedures for ensuring that SUMs were only claimed for students enrolled on open/distance learning programmes who were continuing with the programme.

- We tested a sample of 10 distance learning students and confirmed that there was evidence that the student remained on programme, both in terms of attendance and progress.

Procedures in place to assess fundability of collaborative provision.

- We reviewed the SUMs claimed for a sample of collaborative provision courses to ensure compliance with the guidance. This included whether the College had sought evidence that the course was not fully funded from non-SFC sources.

Limitations to the scope of the audit assignment:

- Testing has been limited to the areas identified above and we have not given consideration to any other aspects of the College's student record systems.
- We have not commented on the suitability or appropriateness of the College's course and programme offerings.
- The findings of this review should not be considered to detail all errors that may currently and may in the future exist in the paper and computer records relating to the student record systems.
- We have only considered students funded by the SFC. Testing has been undertaken on based on the 2014/15 SUMs return.
- Testing was performed on a sample basis only and we cannot give absolute assurance that controls have been applied in all instances.

APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit assignment

- Jannette Brown, Vice Principal
- Angela Wells, Student Records Manager

Documentation reviewed during the audit assignment:

- The FES Return for 2014-15
- SUMs listing of students for 2014-15

APPENDIX C: FURTHER AUDITOR'S REPORT

Auditor's report to the members of the Board of Management of Dumfries and Galloway College.

We have audited the FES return which has been prepared by Dumfries and Galloway College under the 'SUMs' Guidance issued 22 July 2015 and which has been confirmed as being free from material misstatement by the College's Principal in his/her Certificate dated October.

We conducted our audit in accordance with guidance contained in the 2014/15 Audit Guidance for colleges.

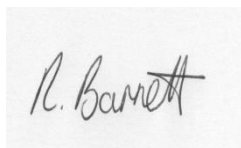
The audit included an examination of the procedures and controls relevant to the collection and recording of student data. We evaluated the adequacy of these controls in ensuring the accuracy of the data. It also included examination, on a test basis, of evidence relevant to the figures recorded in the student data returns.

We obtained sufficient evidence to give us reasonable assurance that the returns are free from material mis-statement.

In our opinion:

- The student data returns have been compiled in accordance with all relevant guidance;
- Adequate procedures are in place to ensure the accurate collection and recording of the data; and
- On the basis of our testing we can provide reasonable assurance that the FES return contains no material mis-statement.

Signature

A handwritten signature in black ink, appearing to read 'R. Barnett', is written on a light grey rectangular background.

Date:

Name of audit firm: Baker Tilly Risk Advisory LLP

Contact name: Rob Barnett

Date FES returned: October 2015

FOR FURTHER INFORMATION CONTACT

Rob Barnett, Head of Internal Audit

Robert.Barnett@rsmuk.com

Tel: 07791 237658

Lindsay Straughton, Client Manager

Lindsay-anne.Straughton@rsmuk.com

Tel: 07800 617385

rsmuk.com

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THE POWER OF BEING UNDERSTOOD

DUMFRIES AND GALLOWAY COLLEGE

Student Support Funds

FINAL

Internal Audit Report: 1.15/16

29 October 2015



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Debrief held	9 October 2015	Internal Audit team	Robert Barnet, Head of Internal Audit
Draft report issued	22 October 2015		Lindsay Straughton, Manager
Responses received	28 October 2015		Rakxa Parmar, Senior Auditor
			Luke Appleton, Auditor
Final report issued	29 October 2015	Client sponsor	Jannette Brown, Vice Principal
		Distribution	Jannette Brown, Vice Principal
			Karen Hunter, Finance Manager
			Marion Erne, Student Funding Officer

As a practising member firm of the Institute of Chartered Accountants in England and Wales (ICAEW), we are subject to its ethical and other professional requirements which are detailed at <http://www.icaew.com/en/members/regulations-standards-and-guidance>.

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Therefore, the most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the risk management, governance and control processes reviewed within this assignment. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

This report is supplied on the understanding that it is solely for the use of the persons to whom it is addressed and for the purposes set out herein. Our work has been undertaken solely to prepare this report and state those matters that we have agreed to state to them. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any party other than the Board which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to our Client on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

1 EXECUTIVE SUMMARY

1.1 Background

An audit of Student Support Funds was undertaken as part of the approved internal audit periodic plan for 2015/16.

Our review of Bursaries, Student Support Funds and the Education Maintenance Allowance (EMA) was conducted in accordance with the Scottish Funding Council's (SFC) 2014/15 audit guidance for Colleges. It included a detailed review of the processes and controls in place relevant to the processing of applications and payments, and testing of these controls in order to assess the accuracy of the data.

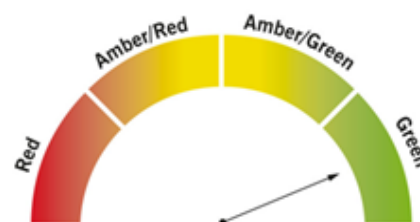
Since the review carried out for 2014/15, the College has not changed its procedures for the administration of student support funds other than the use of online application forms, where possible.

We issued our audit certificate to the SFC in October 2015. The audit certificate is attached to this report at Appendix C.

1.2 Conclusion

Internal Audit Opinion:

Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage the identified risk(s) are suitably designed, consistently applied and operating effectively.



Our audit work confirmed that there are adequate and effective controls in place around the allocation and monitoring of student support funds. We identified two areas of concern which have overall resulted in one 'medium' priority management action, in relation to the transfer of bursary and student support funds into and out of the current account and the relevant bank accounts, when the funds are received and subsequently paid.

1.3 Key findings:

We reviewed key controls and considered the controls in place for the delivery of the Student Support Funds function and identified a number of well-designed controls, in particular:

- It was ascertained that the College had adopted national policy documents formulated by the Scottish Government and the SFC to help improve the current system and processes.
- Eligibility criteria and means testing of award levels meet SFC guidelines.
- Students must meet attendance criteria for the continual award of support funds; this is monitored on a fortnightly basis by the Student Support Officer.
- The Finance Assistant reconciled the bank accounts to the fund accounts and payments on a monthly basis; this had been reviewed by the Finance Manager.
- The Student Support Officer produces monthly projections for the bursary and student support funds in order to identify whether funds are likely to be under or over spent.
- The College implements allowable and not allowable expenditure as detailed in the SFC guidance.
- Departments submit requests to the Finance Manager at the beginning of each year for allocations of budget from the bursary study expense account in line with SFC allowable expenditure guidance.
- The College identifies any overspend and if necessary bears the cost of overspends from its own resources.
- The College has in place a defined approach for discretionary funds to ensure that funds are targeted towards priority groups and those students with genuine hardship and need.

We performed sample testing in order to assess compliance with the key controls identified and confirmed that overall the controls were being correctly and consistently applied.

1.4 Additional information to support our conclusion

Risk	Control design*	Non Compliance with controls*	Agreed actions		
			Low	Medium	High
Funding Received from SFC is incorrectly recorded in the ledger	- (3)	2 (3)	-	2**	-
Awards are paid incorrectly	- (7)	- (7)	-	-	-
Bursaries are paid to students who have not met the attendance criteria	- (3)	- (3)	-	-	-
Use of bursary funds for childcare exceeds the maximum amount allowed and the college has not made provision to fund the excess from the college's own resources.	- (1)	- (1)	-	-	-
Audited return is not in agreement with underlying records in the college ledgers.	- (1)	- (1)	-	-	-
Limits specified on fund accounts are exceeded and the college has not made provision to fund this from its own resources.	- (1)	- (1)	-	-	-
Alternative travel allowance is paid incorrectly	- (2)	- (2)	-	-	-
Bursary overspends are not charged to the income and expenditure account	- (1)	- (1)	-	-	-
Support funds are used for purposes specifically disallowed in the national policy.	- (2)	- (2)	-	-	-
Childcare payments are made without due reference to the circumstances of the applicant.	- (1)	- (1)	-	-	-
Total			-	2	-

* Displays the number of controls not adequately designed or complied with. The number in brackets resembles the total number of controls reviewed in this area.

**One management action has been agreed to address two issues identified as part of testing.

2 ACTION PLAN

The table below sets out the actions agreed by management to address the findings

Ref	Findings summary	Priority	Management action	Implementation date	Owner responsible
Risk: Funding Received from SFC is incorrectly recorded in the ledger					
1.1	Bursary funds received are not transferred into the bursary funds bank account.	Medium	<p>The re-classification of the College has resulted in a change to drawing down cash, including student support funds, from SFC. The budget available up to 31.03.15 was lower than demand, which led to an overspend of student support for that period. Reconciliations and projections for student support funds, including bank reconciliations, have been carried out on a regular basis for the whole academic year.</p> <p>The Finance Assistant will transfer bursary and student support funds into and out of the current account for the time being with a view to revising the procedures and maintaining a separate bank account only for SAAS funded HE Discretionary student support, which is in accordance with the SFC and SAAS guidelines.</p>	30 October 2015	Finance Manager

3 DETAILED FINDINGS

This report has been prepared in full and therefore covers all aspects of the testing undertaken.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Management action
Risk: Funding Received from SFC is incorrectly recorded in the ledger						
1.1	<p>The College maintains a separate bank account for bursary funds.</p> <p>Funding received from the SFC is paid directly into the College's current account and the Finance Assistant then transfers the amounts into the bursary account and makes the necessary adjustments in the ledgers.</p> <p>Payments made to students are also made from the College's current account and at the end of the month the Finance Assistant transfers money over from the bursary account and makes the necessary adjustments in the ledgers.</p>	Yes	No	<p>A sample of three bursary receipts was reviewed and it was confirmed that the amounts per the funding letter had been correctly transferred from the College's current account to the bursary account and that the adjustments had been made for December 2014 and February 2015. However, we noted that in April 2015 this did not occur; discussions with the Finance Assistant established that since March the transfer into the fund accounts had not been taking place.</p> <p>A sample of three bursary payments from the current account was also reviewed and it was noted that the funds were transferred from the bursary account into the current account in two cases (December 2014 and February 2015). We noted in one case in April 2015 were this did not occur.</p> <p>There is a risk that without transferring funds into the separate designated bank accounts for funds, the College may lose track of funding and it may draw scrutiny from the SFC.</p>	Medium	<p>The re-classification of the College has resulted in a change to drawing down cash, including student support funds, from SFC. The budget available up to 31.03.15 was lower than demand, which led to an overspend of student support for that period. Reconciliations and projections for student support funds, including bank reconciliations, have been carried out on a regular basis for the whole academic year.</p> <p>The Finance Assistant will transfer bursary and student support funds into and out of the current account for the time being with a view to revising the procedures and maintaining a separate bank account only for SAAS funded HE Discretionary student support, which is in accordance with the SFC and SAAS guidelines.</p>

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Management action
1.2	<p>The College maintains a separate bank account for student support funds.</p> <p>Funding received from the SFC is paid directly into the College's current account and the Finance Assistant then transfers the amounts into the student support funds account and makes the necessary adjustments in the ledgers.</p> <p>Payments made to students are also made from the College's current account and at the end of the month the Finance Assistant transfers money over from the student support fund account and makes the necessary adjustments in the ledgers.</p>	Yes	No	<p>A sample of three student support receipts was reviewed and it was confirmed that the amounts per the funding letter had been correctly transferred from the College's current account to the student support fund account and that the adjustments had been made for December 2014, February 2015. We noted in April 2015 that this did not occur; discussions with the Finance Assistant informed us that since March a misunderstanding has arisen and transfer into the fund accounts had not been occurring.</p> <p>A sample of three student support fund payments from the current account was also reviewed and it was noted that the funds were transferred from the bursary account into the current account in two cases (December 2014 and February 2015). We noted in one case, in April 2015, that this did not occur.</p> <p>There is a risk that without maintaining separate bank accounts for funds then the College may lose track of funding and it may draw scrutiny from the SFC.</p>	Medium	See management action 1.1
1.3	<p>EMA payments and receipts are all processed through the College's current account.</p> <p>Receipts are monthly and based on the claim submitted.</p>	Yes	Yes	<p>A sample of three EMA claims was reviewed and it was confirmed that all three amounts had been received from the SFC, and the amount claimed matched the actual amounts paid to students only for the February, April and June 2015.</p> <p>We confirmed in all three cases that the drawdown of the funds was signed by the Finance Manager.</p>	N/A	No management action required.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Management action
Risk: Awards are paid incorrectly						
2.1	<p>Eligibility criteria for each student category is listed in the national policy documents. Students are required to provide a number of original documents or clear copies in support of their application and these are listed on the email generated after completing the application form.</p> <p>Upon input of the application to the system and all of the student's details, the system automatically calculates whether the student is eligible.</p>	Yes	Yes	Through review of a sample of 15 students in receipt of financial assistance in 2014/15 through bursaries (five), EMA (five) and student support (five), we confirmed in all 15 cases that the student had provided the necessary proof of eligibility along with their electronically signed applications for funding, and these were available for review on the system.	N/A	No management action required.
2.2	<p>Eligibility criteria for courses are listed in the national bursary policy document and these are prepopulated in the funding system.</p> <p>The system automatically determines whether the student is eligible for funding.</p>	Yes	Yes	Through review of the sample of 15 students' financial assistance in 2014/15, we confirmed in all 15 cases that the courses on which the students were enrolled during 2014/15 were eligible for funding as per the guidance issued by the SFC.	N/A	No management action required.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Management action
2.3	The College has defined means testing arrangements for student support funds, EMA's and bursaries which are in line with the national guidance. The system is set up so that upon input of the information from each student's application, the system calculates the award.	Yes	Yes	Through review of 15 applications for funding made in 2014/15, we confirmed in all 15 cases that the income and expenditure information provided on the funding applications had been correctly input onto the system and this had been used to means test the funding award in all 15 cases.	N/A	No management action required.
2.4	Award rates are prepopulated in the system and are paid at rates published in national policy (as adjusted by any means-testing).	Yes	Yes	Through review of the sample of 15 students' financial assistance in 2014/15, we confirmed in all five bursary and in all five EMA cases that the award made was in line with the national guidelines. For the five students who qualified for student support payments we confirmed that the student had provided evidence that their household income was less than £30,000 per annum.	N/A	No management action required.
2.5	Upon input of an application, the system flags where a student has already received the maximum award and will not allow the award of further funding.	Yes	Yes	Through review of the sample of 15 students' financial assistance in 2014/15, we confirmed in all 15 cases that none of the applicants had received more than the maximum funding allowed.	N/A	No management action required.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Management action
2.6	<p>Student bank details are input to the system from the application forms.</p> <p>All payments are made via BACs in the first instance.</p> <p>Cheques or manual bank payments are only made where the BACs payment has been returned by the student's bank. Payment runs are prepared by the Finance Assistant and processed by the Finance Manager or the Senior Finance Assistant.</p>	Yes	Yes	<p>Through review of the sample of 15 students' financial assistance in 2014/15, we confirmed in all 15 cases that the student's bank details recorded in the system matched the details provided on the application form.</p> <p>It was also confirmed that all 15 students had been paid by BACS which were created and processed by two separate individuals.</p>	N/A	No management action required.
2.7	<p>Students receiving EMA are required to complete the appropriate checkbox on the online application form to confirm they agree to the terms and conditions.</p> <p>The appropriate checkbox must also be completed by their parent or guardian.</p>	Yes	Yes	<p>Through review of a sample of five students receiving EMA in 2014/15, we confirmed in all five cases that an application form was in place and that the student and parent / guardian had checked the appropriate boxes to confirm their compliance with the document.</p>	N/A	No management action required.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Management action
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Risk: Bursaries are paid to students who have not met the attendance criteria

3.1	<p>Students must be enrolled full time and achieve 100% attendance or provide adequate explanation for absences.</p> <p>Students may sign themselves off using the self-certification process for a maximum of 30 days per academic session.</p> <p>All medical absences over 5 consecutive days must be covered by a doctors' certificate.</p>	Yes	Yes	<p>Through review of the sample of 15 students' financial assistance in 2014/15, we confirmed in all 15 cases that no student had achieved 100% attendance.</p> <p>We did however, confirm that 13 students had all completed self-certification and had not exceeded the number of days for self -certification allowed in each term.</p> <p>The remaining two students had their payments stopped as a result of them withdrawing from their course.</p>	N/A	No management action required.
3.2	The College carries out checks of student attendance on every fortnightly payment run.	Yes	Yes	<p>The attendance checks files for bursaries and student support funds were reviewed and it was confirmed that the Student Support Officer carried out attendance checks on 100% of students each time a payment run was processed on a fortnightly basis.</p> <p>Where a student did not have 100% attendance and had not completed an online self-assessment, or had exceeded the number of days of self-assessment allowed in the academic session, the funding payments had been automatically stopped.</p>	N/A	No management action required.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Management action
3.3	<p>A weekly report is received from Student Records listing all withdrawals within that week.</p> <p>This is then checked to identify whether any of the students are receiving EMA, Bursary of Discretionary Funding.</p> <p>The funding is automatically cancelled on the system with withdrawals being completed online and the system then calculates whether a final payment is due.</p>	Yes	Yes	For a sample of six withdrawals (two bursary, two student support, two EMA) we confirmed that in all six cases that the last payment received by the student was based on their last recorded attendance date. All students had the correct amount paid to them and had not been overpaid.	N/A	No management action required.
<p>Risk: Use of bursary funds for childcare exceeds the maximum amount allowed and the college has not made provision to fund the excess from the college's own resources.</p>						
4.1	<p>The College received guidance from the SFC informing them they can transfer excess funds from the bursary allocation to cover an overspend in any other student funds area.</p> <p>The College inform the SFC of any transfers by detailing the transfer in the return submitted to the SFC.</p>	Yes	Yes	<p>Through review of the SFC fund guidance we confirmed that the College can transfer funds between areas.</p> <p>The Bursary return was reviewed and it was identified that one transfer had been reported to the SFC this academic year, from Bursary funds to Childcare funds. Review of the system confirmed that the transfer had taken place and the amount matched the amount recorded on return.</p>	N/A	No management action required.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Management action
Risk: Audited return is not in agreement with underlying records in the college ledgers.						
5.1	The Finance Assistant reconciles the bank accounts to the fund accounts and payments on a monthly basis. These are then checked and signed by the Finance Manager or the Senior Finance Assistant.	Yes	Yes	We confirmed that reconciliations had been performed in December 2014 and April 2015 and that there were no irreconcilable items. These had been signed by the Finance Manager or the Senior Finance Assistant.	N/A	No management action required.
Risk: Limits specified on fund accounts are exceeded and the college has not made provision to fund this from its own resources.						
6.1	The Student Support Officer produces monthly projections from October each year for the bursary and student support funds in order to identify whether funds are likely to be under or over spent.	Yes	Yes	The fund projections file was reviewed and it was confirmed that these had been carried out every month. The projections for January, March and May 2015 were reviewed and it was identified that the College had a predicted overspend for FE/HE in March and May due to increased childcare applications. This had been highlighted to the SFC and it was agreed that depreciation funds could be used to cover the shortfall and therefore the College did not need to meet the difference using their own resources.	N/A	No management action required.
Risk: Alternative travel allowance is paid incorrectly						
7.1	The College provides a free bus for bursary students. This scheme has been in place for over ten years and was approved by the SFC at inception.	Yes	Yes	The free bus provided for bursary students has been operational for over ten years and was approved by the SFC at inception and as a result no further testing has been undertaken.	N/A	No management action required.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Management action
7.2	Travel costs are only paid to students with disabilities or who are on placement.	Yes	Yes	For a sample of five students who had received travel cost assistance during 2014/15 we confirmed in all five cases that all students had additional support needs (three) or were on placement (two) and therefore they were entitled to receive the payments.	N/A	No management action required.
Risk: Bursary overspends are not charged to the income and expenditure account						
8.1	Overspends cannot be carried forward or offset against future allocations. College must bear the cost of overspends from its own resources.	Yes	Yes	The actual payments against the allocated funding were reviewed and it was confirmed that in 2014/15 none of the Colleges student funds had been overspent, with the exception of FE/HE (see section 6.1).	N/A	No management action required.
Risk: Support funds are used for purposes specifically disallowed in the national policy.						
9.1	The National policy documents identify which types of expenditure are specifically allowable and not allowable. This is reflected in the Colleges own procedures.	Yes	Yes	We confirmed that the College followed the National Policy documents which listed the types of funding which were available to students and the associated limits. For the sample of 15 students receiving financial assistance, we confirmed in all cases, funding had only been provided in line with the SFC guidelines.	N/A	No management action required.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Management action
9.2	<p>Departments submit requests to the Finance Manager at the beginning of each year for allocations of budget from the bursary study expense account.</p> <p>The Finance Manager reviews these and uses judgement to allocate budget.</p> <p>Items which are not specifically allowed by the SFC guidance are excluded. The Finance Manager checks actual expenditure each month against the study expenses budgets to ensure that spend is within budget and only on allowable items.</p>	Yes	Yes	<p>A sample of two department study expense budgets (Art, Design and Media and Engineering) as at July 2015 were reviewed and it was confirmed that in Art, Design and Media the actual spend was within the budget allocation and that spend had only been made on allowable items.</p> <p>In the other case, Engineering, there appeared to be an overspend, however discussions with the Finance Manager established that the purchase of study and curricular materials were made at the start of the term and it can be difficult to identify costs from the bursary expense at that stage. As a result, the Finance Manager monitors actual costs coded to study costs during the year and transfers are made between study costs and materials at the end of the year to ensure there are no overspends.</p>	N/A	No management action required.
Risk: Childcare payments are made without due reference to the circumstances of the applicant.						
10.1	<p>The College has a defined approach for discretionary funds which details how they ensure that funds are targeted towards priority groups and those students with genuine hardship and need.</p> <p>This is reviewed annually and approved by the Senior Management Team (SMT).</p>	Yes	Yes	Discussions with the Finance Manager established that there had been no significant changes made to the previous 2014/15 strategy and as this was confirmed adequate in the previous audit, this has not been tested further this year.	N/A	No management action required.

APPENDIX A: SCOPE

Scope of the review

The scope of this review was to evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion.

The scope was planned to provide assurance on the controls and mitigations in place relating to the following risks:

Objective of the area under review	Risks relevant to the scope of the review	Risk Source
Funds are used for their intended purpose and College procedures comply with guidance.	Funding Received from SFC is incorrectly recorded in the ledger Awards are paid incorrectly Bursaries are paid to students who have not met the attendance criteria Use of bursary funds for childcare exceeds the maximum amount allowed and the college has not made provision to fund the excess from the college's own resources. Audited return is not in agreement with underlying records in the college ledgers. Limits specified on fund accounts are exceeded and the college has not made provision to fund this from its own resources. Alternative travel allowance is paid incorrectly Bursary overspends are not charged to the income and expenditure account Support funds are used for purposes specifically disallowed in the national policy. Childcare payments are made without due reference to the circumstances of the applicant.	SFC Audit Guidance

When planning the audit, the following areas for consideration and limitations were agreed:

The audit considered the following funds:

- Bursaries,
- Student Support Funds (Childcare and Discretionary Funds), and
- Education Maintenance Allowance

The following areas were included:

- College policies;
- Recording of fund income received;
- Student eligibility and means testing of student income;
- Course eligibility;
- Payment controls, including award rates and monitoring of student attendance;
- Monitoring of spend and budgetary control;
- Reconciliation of College systems to the return; and
- Compliance with study expense guidance.

Limitations to the scope of the audit assignment:

- This audit covered only those funds listed within the scope.
- Testing was performed on a sample basis.
- Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit assignment:

- Finance Manager, Karen Hunter
- Student Funding Officer, Marion Erne

Documents reviewed as part of the audit assignment:

- National Policy documents 2014/15
- College Strategy 2014/15

APPENDIX C: AUDITOR'S CERTIFICATE

Standard Form of Auditor's Report for EMA Returns

Name of College: Dumfries and Galloway College

Auditor's Report to the Scottish Funding Council (SFC) for the period from 1 August 2013 to 31 July 2014.

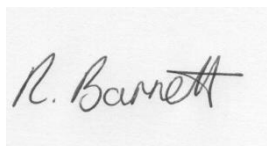
We have examined the books and records of the above college, including evidence of checks of five per cent of applications and payments, with a minimum sample size of five students, and have obtained such explanations and carried out such tests as we considered necessary.

On the basis of our examination and of the explanations given to us, we report that the information set out in these forms is in agreement with the underlying records.

We also report that, in our opinion, the college used these funds in accordance with the SFCs conditions and the principles of the Education Maintenance Allowance programme.

We are satisfied that the systems and controls of the administration and disbursements of these funds are adequate.

Signed:

A handwritten signature in black ink, reading 'R. Barnett', on a light-colored rectangular background.

(Rob Barnett)

Dated: October 2015



FOR FURTHER INFORMATION CONTACT

Rob Barnett, Head of Internal Audit

Robert.Barnett@rsmuk.com

Tel: 07791 237658

Lindsay Straughton, Client Manager

Lindsay-anne.Straughton@rsmuk.com

Tel: 07800 61738

rsmuk.com

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THE POWER OF BEING UNDERSTOOD

DUMFRIES AND GALLOWAY
COLLEGE

Internal Audit Progress Report

Audit Committee

24 November 2015

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As a practising member firm of the Institute of Chartered Accountants in England and Wales (ICAEW), we are subject to its ethical and other professional requirements which are detailed at <http://www.icaew.com/en/members/regulations-standards-and-guidance>.

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made.

Recommendations for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

This report is supplied on the understanding that it is solely for the use of the persons to whom it is addressed and for the purposes set out herein. Our work has been undertaken solely to prepare this report and state those matters that we have agreed to state to them. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any party other than the Board which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

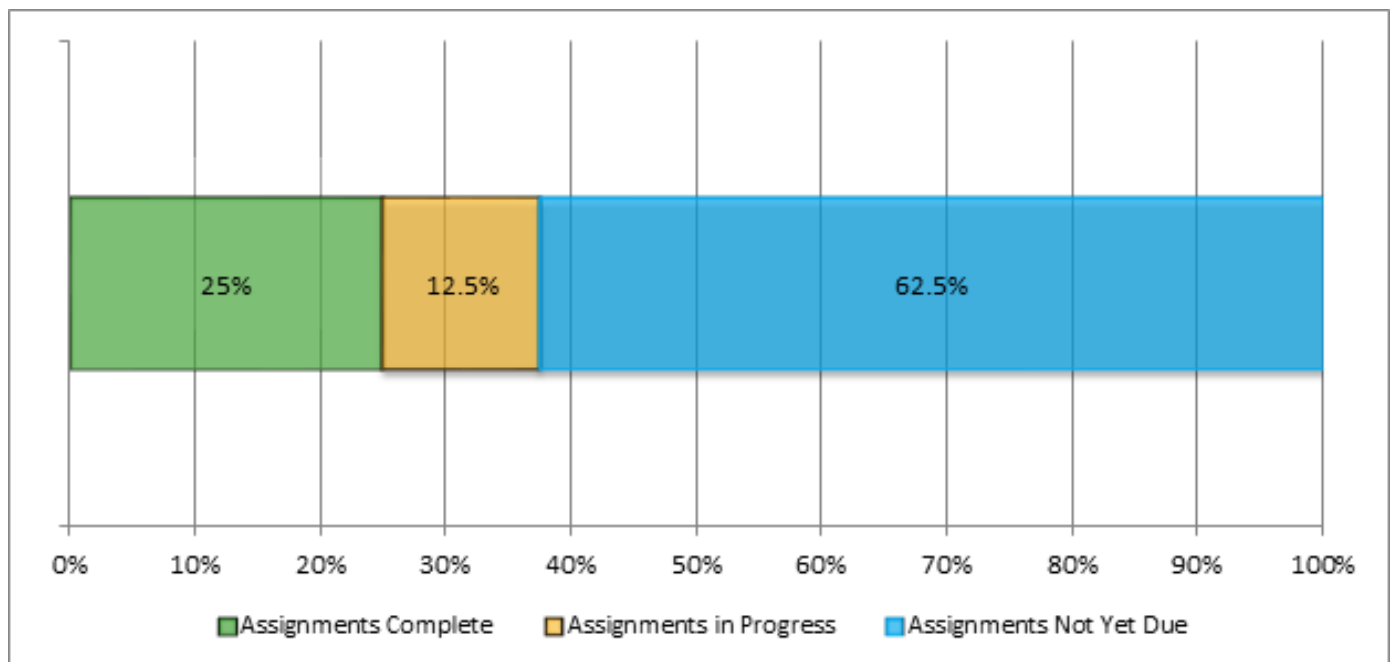
This report is released to our Client on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

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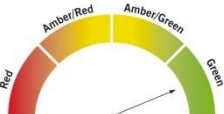
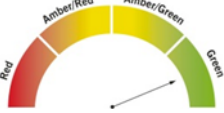
1 INTRODUCTION

The internal audit plan for 2015/16 was approved by the Audit Committee in May 2015. Below provides a summary update on progress against that plan and summarises the results of our work to date. Please see chart below for current progress with the plan.



2 REPORTS CONSIDERED AT THIS AUDIT COMMITTEE

This table informs of the audit assignments that have been completed and the impacts of those findings since the last Audit Committee held. The internal audit plan for 2015/16 was approved by the Audit Committee in May 2015. Below provides a summary update on progress against that plan and summarises the results of our work to date/completed since the last Audit Committee. Those shown in ***bold italic*** are presented to this meeting.

A s s i g n m e n t s	S t a t u s	O p i n i o n i s s u e d	A c t i o n s a g r e e d		
			L	M	H
<i>Student Support Funds (01.15/16)</i>	<i>FINAL</i>		-	<i>1</i>	-
<i>Student Activity Data (Weighted SUMs) (02.2015/16)</i>	<i>FINAL</i>		-	-	-
VFM – APUC Assessment (03.2015/16)	DRAFT				

2.1 Impact of findings to date

The internal audit work completed to date has not resulted in any findings which we would wish to bring to Members' attention, or which would adversely affect or opinion at the year end.

Our review of **Student Support Funds** found that overall, the controls were well-designed and correctly and consistently applied, resulting in only one medium management action in relation to separation of bursary funds received into the bursary funds bank account.

Our review of **Student Activity Data (Weighted SUMs)** also found that overall, the controls were well-designed and correctly and consistently applied and did not result in any management action required.



3 LOOKING AHEAD

A s s i g n m e n t a r e a	T i m i n g p e r a p p r o v e d I A p l a n 2 0 1 5 / 1 6	S t a t u s	T a r g e t A u d i t C o m m i t t e e p e r t h e I A P l a n 2 0 1 5 / 1 6
Strategic and Financial Planning	February 2016	Planned delivery week commencing 23 November 2015	February 2016
Budgetary Control	February 2016	Planned delivery week commencing 23 November 2015	February 2016
Human Resources Effectiveness	May 2016	Planned delivery week commencing 25 January 2016	May 2016
VfM - Procurement	May 2016	Planned delivery week commencing 25 January 2016	May 2016
Action tracking	May 2016	Planned delivery week commencing 11 May 2016	May 2016

4 OTHER MATTERS

4.1 Changes to the audit plan

There have been no changes to the Internal Audit Plan since the Plan was approved by the Audit Committee in May 2015.

4.2 Information and briefings

No information briefings have been circulated since the last Audit Committee.

4.3 Key performance indicators (KPIs)

D e l i v e r y			Q u a l i t y		
Percentage of plan delivered:		25% (two final reports issued)			
Audits in progress:		12.5% (one draft report issued)			
	T a r g e t	A c t u a l		T a r g e t	A c t u a l
Audits commenced in line with original timescales	Yes	All audits are on schedule to be delivered by year-end	Conformance with PSIAS and IIA Standards	Yes	Yes
Draft reports issued within 10 days of debrief meeting	100%	9 days (average)	Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit.	Yes	Discussion held with External Audit in October as part of their planning procedures
Management responses received within five days or draft report	100%	3 days (average)	% of staff with CCAB/CMIIA qualifications	>50%	100%
Final report issued within five days of management response	100%	1 day(average)	Turnover rate of staff	<10%	Nil
% audit reports presented to agreed Audit Committee meetings	100%	100%	Response time for all general enquiries for assistance	2 working days	100%
% of High and Medium recommendations followed up	100%	Planned for May 2016	Response for emergencies and potential fraud	1 working days	N/A – at this time

FOR FURTHER INFORMATION CONTACT

Rob Barnett, Head of Internal Audit

Robert.Barnett@rsmuk.com

Tel: 07791 237658

Lindsay- Anne Straughton, Client Manager

Lindsay-Anne.Straughton@rsmuk.com

Tel: 07800 617385

rsmuk.com

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Audit Committee

Strategic Risk Register

1. Introduction

- 1.1 The purpose of this paper is to provide the Audit Committee with the opportunity to review the College's Strategic Risk Register.

2. Background

- 2.1 One of the duties of the Audit Committee is to review the Risk Management Policy and the effectiveness of risk management systems including the College's risk register. In line with the College's Risk Management Policy any risk with an inherent rating of 12 or above must have mitigating controls in place and where the residual ratings remains above 12.

3 The Report

- 3.1 The attached risk register has been reviewed and updated by the Principal and Executive Management Team to reflect the risks the College is facing and the mitigation that will be applied to each risk.
- 3.2 The residual risk total of risk no 5 'Governance issues: Reclassification and other changes to governance reduce the flexibility of the College to manage financial and estates issues and meet targets in the Outcome Agreement' has increased from 4 to 12 due to continuing reliance on the Scottish College Foundation to support College developments.

3. Recommendation

- 3.1 It is recommended that the Audit Committee consider and, if so minded, approve the Strategic Risk Register.

Strategic Plan 2015-2016 Risk Register

Risk No.	Risk Description	Inherent Risk			Controls in Place	Assurances	Internal/ External	Residual risk			Further Action	Risk Owner
		Likelihood	Impact	Total				Likelihood	Impact	Total		
1	National Pay Bargaining	4	4	16	1. Detailed financial planning undertaken and approved by Finance and General Purposes Committee to ensure "affordability" of any offer. 2. National negotiation processes in place with recognised unions. 3. Government public sector pay guidance for 2015-16 is for maximum 1%.	1. Feedback to EMT and the Board 2. Included in budget which is monitored and reported through F&GP and Board 3. Sound internal planning and monitoring to ensure service continuity in event of industrial action	Internal/ External	4	4	16	Regular communication with staff and student association executive on sector developments and management position. Regular liaison with union bodies in college. Industrial action will be detrimental to learners achieving their aims/qualifications.	ET
2	Public sector funding cuts - forecast for session 2016-17	4	4	16	1. Scenario planning undertaken and measures to offset reduction identified which is then used to inform curriculum planning. 2. Annual review of provision undertaken through planning and budgetary process to ensure match of income and expenditure.	1. Curriculum plans approved by EMT and L&T 2. Budget approved by the Board	Internal	3	4	12	Reduce curriculum provision and or student services in line with funding and implement cost savings. Seek to increase non SFC income.	ET
3	Failure to achieve attainment targets	4	4	16	1. Real time monitoring systems in place 2. Strategies in place to improve retention. 3. Strategies in place to improve student success 3. Poorly performing programmes removed from the curriculum.	1. Monitored at course level and review by Vice Principal (Learning and Skills) 2. Monitored through self evaluation process and reported to ET and L&T committee	Internal/ External	1	4	4	Moving forward achieving attainment targets agreed with the SFC in the Regional Outcome will be a condition of grant. Low attainment can be detrimental to college reputation	ET
4	Implications following the implementation of 'needs-led' funding model, in particular ELS and rural funding	4	4	16	1. Principal member of College Sector Funding Group. 2. Continuous review of curriculum and delivery by ET to ensure that adverse impact minimised.	1. Feedback to ET and Board meetings 2. Reports to L&T Committee	Internal	2	2	4	Implementation of 'needs led' funding approach in 15/16. Internal audit review planning for 15/16. ELS audit requirements in 2016/17	CAT/ JB
5	Governance issues: Reclassification and other changes to governance reduce the flexibility of the College to manage financial and estates issues and meet targets in the Outcome Agreement.	4	4	16	1. Executive Management Team and Finance Manager representation at relevant briefings and ongoing monitoring of changes 2. External audit advice	1. Appropriate and robust internal planning and monitoring arrangements 2. Regular liaison with Scottish Funding Council	Internal/ External	3	4	12	Seeking support from Scottish College Foundation to support College's continuing development. SFC Guidance on Depreciation and Deficits	ET
6	Failure to achieve an 'effective' outcome following Education Scotland Review	4	4	16	1. Real time monitoring systems. 2. Quality learning, learner engagement and quality culture monitored through annual self evaluation	1. Monitored through self evaluation process 2. Education Scotland Annual Engagement Visit 3. Monitored through external audits and external moderation visits 4. Regularly reviewed by executive team, L&T and the Board.	Internal/ External	1	3	3	A less than favourable review will be detrimental to the college reputation. Moving forward achieving attainment targets agreed with the SFC in the Regional Outcome will be a condition of grant. Low attainment can be detrimental to college reputation	ET
7	Unable to achieve credit (activity) target	3	4	12	1. Real time monitoring system. 2. Contingency plans in place to offer additional provision as required. 3. Annual review of staffing and provision to rebalance areas of growth with areas of decline. 4. Annual review carried out by internal audit	1. Reviewed by ET on a weekly basis 2. Reviewed by ET on a weekly basis 3. Review carried out by HR and presented to ET for consideration/approval. 4. Internal audit report presented to audit committee	Internal / External	2	4	8	No further action.	JB
8	Disruption to business continuity due to Influenza pandemic, terrorism, fire or other disaster	2	4	8	1. Business continuity plan in place (check audit report recs)	1. Reviewed by ET and report to Board 2. Internal audit review carried out in 11/12	Internal / External	2	2	4	Implementation of audit recs	ET
9	Imbalance between demand for student support funds/bursaries and funds available	2	3	6	1. Detailed analysis and monitoring of spend undertaken on an ongoing basis by Finance Manager, discussed monthly with VP (CS&G) who updates ET. 2. Allocation and amounts reviewed on an annual basis to ensure funding constrained within amount available. 3. Annual review carried out by internal audit	1. ET meetings/minutes 2. ET meetings/minutes 3. Internal audit report presented to audit committee	Internal / External	1	2	2	No further action but continue to monitor expenditure and amend student funding policies to match demand with available budget. For session 2015-2016 SFC advised depreciation funds to be used for student funding shortfall	JB

Strategic Plan 2015-2016 Risk Register

Risk No.	Risk Description	Inherent Risk			Controls in Place	Assurances	Internal/ External	Residual risk			Further Action	Risk Owner
		Likelihood	Impact	Total				Likelihood	Impact	Total		
10	Loss of collaborative partnership arrangements	2	3	6	1. Policy of limiting dependence on any one partnership. 2. Regular reporting of partnership issues at ET. 3. Constant scanning to identify new potential partnerships.	1. Currently not specifically reviewed 2. ET meetings/minutes 3. ET meetings/minutes	Internal	1	2	2	No further action. Although policy not specifically reviewed, any issues would be identified through regular reporting at ET. Internal audit review planned for 15/16	ET