

## Board of Management Audit Committee

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**Date: 21 February 2017**

**Time: 14:00 pm**

**Room: 1074b**

### **A G E N D A**

		<b>Presented by</b>
1	Welcome and Apologies	HC
2	Declaration of Interest	HC
3	Minute of Meeting of 21 November 2016 (attached)	HC
4	Matters Arising	HC
5	Scott-Moncrieff Introduction (David Eardley and Georgina Philp) (attached)	DE
6	Internal Audit Reports	
6.1	Progress Reports (report attached)	PC
7	Strategic Risk Register (report attached)	JB
8	Audit Scotland Statutory Fees Letter (attached)	JB
9	Any Other Business	
10	Date and Time of Next Meeting – Tuesday, 16 May 2017 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 21 February 2017 at 2 pm in Room 1074b

<b>Present:</b>	Hugh Carr (Chair) Stuart Martin	Pat Kirby
<b>In attendance:</b>	Carol Turnbull, Principal David Eardley (Scott-Moncrieff) Jannette Brown, Board Secretary, Vice Principal Corporate Services & Governance Brian Johnstone, Chair of the Board of Management	Karen Hunter, Finance Manager Georgina Philp (Scott-Moncrieff)
<b>Minute Taker</b>	Heather Tinning, (Executive Team Assistant),	

#### 1 Apologies

The Chair welcomed members to the meeting, in particular David Eardley and Georgina Philp from Scott-Moncrieff. Apologies for absence were intimated on behalf of Delia Holland.

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 Meeting of 21 November 2016

The committee asked for a typo to be corrected then approved the Minute of meeting held on 21 November 2016.

#### 4 Matters Arising

In response to a question about the College's published annual accounts the Vice Principal Corporate Services & Governance advised that a press release would be issued once the College had been advised to publish accounts.

#### 5 Scott Moncrieff Introduction

David Eardley and Georgina Philp spoke to the report which had been issued, providing an overview for Scott-Moncrieff Accountants, and asked for it to be noted that they were delighted to be appointed to undertake the audit for the college. David will lead the external audit for the college and Georgina Philp will manage the onsite audit team.

In answer to a question on courses and updates on governance, DE reported that he would advise the college of any planned events, and reported that at present Scott-Moncrieff are looking to roll out non-executive forums involving plenary sessions, allowing sharing of experience and good practice across the sector.

In terms of the next steps, DE advised that he would look to set up a formal meeting with the College to pull together the External Audit Plan, which will be brought back to the Audit Committee meeting in May. There will be an interim visit to the college to look at the college's systems and processes and a final visit to audit the accounts and the financial statements, for presentation at the November Audit Committee meeting to take forward to the Board of Management at the December meeting.

## **6 Internal Audit Reports**

### **6.1 Progress Reports**

The Vice Principal Corporate Services & Governance spoke to the Internal Audit Progress Report which had been issued, assuring members that the college is on course to progress the audits planned for next year. Planned audits on Cyber Risk and Income Generation took place in w/c 13 February. The Vice Principal Corporate Services & Governance advised that the next interim report will be presented to the Audit Committee at the May meeting, together with the Audit Plan for 2017/18.

Members noted the Internal Audit Progress Report.

## **7 Strategic Risk Register**

The Vice Principal Corporate Services & Governance spoke to the circulated Strategic Risk Register, highlighting the new risks. Discussion took place on the vacancies for both the Board Secretary and the Vice Principal Corporate Services & Governance positions. The Principal re-assured the Board Members that the recruitment process had started for both. The Principal will assume the Vice Principal's portfolio in the interim. She advised that there were experienced managers under the Vice Principal. The Principal confirmed that experts Aspen People will deal handle the recruitment of the Vice Principal, and interviews planned to take place at the end of April. The Principal confirmed that she had emailed all board members with a link to the vacancy.

In answer to a question on the rating of risk 8, business continuity due to Influenza pandemic, terrorism, fire or other disaster, the Vice Principal Corporate Services & Governance advised that the procedure was last invoked when the College being flooded. Staff training had recently taken place in line with PREVENT duties. Feedback from the recent audit of Cyber Security does not indicate that the rating should be increased.

**Decision:** Members approved the Strategic Risk Register.

## **8 Audit Scotland Statutory Fees Letter**

The Vice Principal Corporate Services & Governance spoke to the Letter which had been issued, providing notification of the college's statutory fees for 2016/17 Audits. Discussion surrounded the expected fixed fee increase of 13.8% from 2015/16.

Members noted the contents of the letter.

## **9 Any other Business**

### **9.1 College Strategic Risk Register**

In response to a question in terms of the Auditors' views on the college's Strategic Risk Register, DE advised that the format, layout and number of risk identified are in line with good practice. He also advised that it was important to discuss the Risk Register at Board Committee meetings. Members noted that the Risk Management Policy was reviewed last June.

### **9.2 Vice Principal Corporate Services & Governance**

On behalf of the Audit Committee, the Chair thanked the Vice Principal Corporate Services & Governance (Board Secretary) for her dedication and commitment and wished her well in her future plans.

## **10 Date and Time of Next Meeting**

The next meeting of the committee is to take place on Tuesday 16 May 2017, at 2 pm.

## Board of Management

**Minute of the Meeting of the Audit Committee of the Board of Management of Dumfries and Galloway College held on 21 November 2016 at 12.30pm in Room 1074b**

<b>Present:</b>	Hugh Carr (Chair) Stuart Martin	Pat Kirby
<b>In attendance:</b>	Carol Turnbull, Principal Philip Church, Client Manager, RSM Rob Barnett, RSM Jannette Brown, Vice Principal Corporate Services & Governance Brian Johnstone, Chair Board of Management Kay Bird, Secretary to the Board/Minute Taker	Karen Hunter, Finance Manager Angela Pieri, Grant Thornton Jackie Bellard, Grant Thornton

### **1 Apologies**

The Chair welcomed members to the meeting. Apologies for absence were intimated on behalf of Delia Holland.

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 Meeting of 10 May 2016**

The Minute of the Audit Committee meeting held on 10 May 2016 was approved.

### **4 Minute of Meeting of 20 September 2016**

The Minute of the Audit Committee held on 20 September 2016 was approved.

### **5 Matters Arising**

#### **5.1 Update on Lennartz Ruling**

The Finance Manager spoke to the report which had been circulated providing an update. Three colleges have made submissions to HMRC and these submissions have been rejected. Scott Moncrieff have been in College looking at the College's annual adjustments on Lennartz and the Finance Manager will provide further updates in due course. There is now less than two years remaining for the repayments. The Committee discussed the matter and the Vice Principal of Corporate Services and Governance advised that it should be noted that Ernest & Young are not wanting to go forward with this. Brian Johnstone asked what the worst case scenario would be and the Finance Manager advised that this would be if we put in a claim and it was rejected by HMRC and

the College incurred penalties and interest. The College will continue to make repayments and the Finance Manager confirmed the monies have been sent aside.

**Decision:** It was agreed by the Committee that no further action should be taken, subject to further advice from Scott Moncrieff and this matter would be taken to F&GP next week and the Board in December.

## **6 2015-16 External Audit Annual Report**

Jackie Bellard spoke to the report which had been circulated. Jackie Bellard congratulated the college on providing good quality accounts, on time and meeting all the new reporting requirements. In particular, she highlighted on page 8 of the report that new financial statements were required under FRS102 and this had been handled very well by the College. There had been just one adjustment to the financial statements in 2015/16 being a £1000 increase to comprehensive income. It was confirmed this had no significant impact on the bottom line. There were no other areas of significance to report under financial statements.

Jackie Bellard reported that under the governance section there was again noting specific to report and the auditors were satisfied that the arrangements in place were working well.

Jackie Bellard confirmed that under the performance section there was a requirement for new reports with additional requirements to the last year's accounts however these had been well written by the College and the auditors had no concerns.

Members entered into a full discussion and it was confirmed that the technical deficit would be long term due to the pension liability. Stuart Martin asked if the College had taken advice from the Council regarding the pension liability and the Principal confirmed that the Director of Organisational Development and Facilities sits on a steering group in this respect.

Angela Pieri advised this was the end of Grant Thornton's five year appointment with the College and thanked Karen Hunter, Finance Manager and Jannette Brown, Vice Principal Corporate Services & Governance for all their assistance and confirmed that it had been a pleasure working with the College which had been one of the best. Stuart Martin commented that Grant Thornton's reports had always been of high quality. The Chair expressed his thanks to Karen Hunter and her team for an outstanding year.

The Committee noted the report.

## **7 2015-16 Financial Statements**

The Finance Manager spoke to the report which had been circulated highlighting the change in format of the accounts and the main changes in the reporting of deferred capital grant and pensions. Due to the changes in format EMT have worked together with the Finance Manager in producing the narrative accompanying the Financial Statements, to enable third parties to fully understand the accounts.

Due to the new accounting and budget rules on the treatment of pensions and depreciation, the Income and Expenditure Account shows a deficit for the year however the Finance Manager advised the Committee that if these accounting changes had not come into effect the College would be operating on a surplus, and the narrative provides an explanation of this. The Finance Manager, when asked by the Chair, confirmed that all Colleges would be in the same position.

The Committee discussed the report. Stuart Martin asked if there was a joint approach which would be taken by all the colleges with regard to press releases to mitigate figures being manipulated by the press. The

Principal confirmed Colleges' Scotland will co-ordinate a statement on behalf of the sector and the College will adapt this accordingly. The Principal advised if recommended by this Committee the accounts will be signed off by the Board in December and then they go to the Funding Council and Audit Scotland and are not released into the public domain until March 2017.

Brian Johnstone enquired whether it was for this Committee or F&GP to consider producing a one-page statement of key facts on the accounts. The Vice Principal of Corporate Services & Governance advised this was for the Board to agree and the Principal confirmed that EMT could draft a statement to bring to the Board.

**Decision:** The Committee approved the Financial Statements for the year ending 31 July 2016 for recommendation to the Board of Management at its meeting on 6<sup>th</sup> December 2016.

## **8 Internal Audit Reports**

### **8.1 Student Activity Data**

Rob Barnett spoke to the report which had been circulated and confirmed in line with the audit guidance from the SFC Substantial Assurance had been given. This was a very positive report and no management actions were raised.

The Committee noted the report.

### **8.2 Student Support Funds**

Philips Church spoke to the report which had been circulated and confirmed the Internal Audit Opinion resulted in Substantial Assurance. One medium priority had been identified regarding one over-payment of bursary monies and EMT have accepted this action point and confirmed the College has robust procedures in place.

The Committee noted the report.

### **8.3 Safeguarding**

Philip Church spoke to the report which had been circulated and confirmed this was a new matter on the Agenda with terrorism being a new area. There was one medium priority and two low priority recommendations which resulted in the overall opinion of Substantial Assurance. The medium priority concerned PVG checks which were not cleared prior to staff commencing their employment and although procedure had been in place this informal arrangement needed to be fully documented and EMT have confirmed this will be undertaken.

The Committee noted the report.

### **8.4 Marketing and Communication**

Philip Church spoke to the report which had been circulated. There were two areas of high priority and two of medium priority which resulted in the overall opinion of Partial Assurance. Action is required to strengthen the control framework in this area. The Chair expressed his concern regarding the Partial Assurance opinion given and improvement is required. The College needs to develop a Marketing Strategy and the Principal advised EMT have discussed the report's findings

and taken them on board, and the points raised will be incorporated into a new Marketing Strategy and consideration will be given to outsourcing. Brian Johnstone enquired of the Principal whether the College had a Marketing Strategy and the Principal advised that the College did have a Marketing Strategy however this had not been updated recently to support Vision 2020.

**Action:** EMT will develop a Marketing Strategy in line with the findings in the report.

### **8.5 Follow-up Report**

Philip Church spoke to the report which had been circulated and sought questions from the Committee. The Chair asked about the VAT – Impact on the Wakefield Appeal and what impact this could have in Scotland. The Finance Manager advised that the VAT rules are the same throughout the whole of the UK and therefore applicable to Scotland and there could be an impact on Scottish Colleges.

The Committee noted the report.

## **9 Strategic Risk Register**

The Vice Principal of Corporate Services and Governance spoke to the report which had been circulated. She advised there was no change since the last report with 11 risks identified. Risk No. 4 was a watching brief as the impact of the pay settlement is still unknown.

**Decision:** The Committee approved the Strategic Risk Register.

## **10 Any other Business**

The Chair expressed the Committee's thanks to Grant Thornton for all their work over the last five years. Angela Pieri advised she will be attending the Board Meeting in December which will be her last meeting at the College.

## **11 Date and Time of Next Meeting**

The next meeting of the committee is to take place on Tuesday 21 February 2017 at 2 pm.





**Scott-Moncrieff**  
business advisers and accountants

# **Dumfries & Galloway College**

An Introduction to Scott-Moncrieff  
2016/17 – 2020/21

**February 2017**



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# Introducing the Firm and your audit team

# Introducing the Firm and your audit team

## Scott-Moncrieff

1. Scott-Moncrieff is a long-term partner firm to Audit Scotland and a leading provider of public sector audit services in Scotland. We are the only independent Scottish-based firm to specialise in public sector audit. It is our appreciation of public sector culture, our depth of experience, and our service provision that has seen us earn the trust and respect of the public bodies we have worked with, past and present.
2. Our recently-expanded firm has 19 partners and over 200 staff based in our Edinburgh, Glasgow and Inverness offices. We also have an association with Moore Stephens LLP, a Top 10 global firm and one of the largest providers to the National Audit Office in England and Wales.
3. Our public sector team of over 45 staff is widely acknowledged as a leading external audit, internal audit and advisory services provider to the Scottish public sector. We are the largest provider of audit services within the Scottish public sector.

## Your audit team

4. The external audit team at Dumfries & Galloway College will be led by David Eardley and managed by Georgina Philp. We will draw upon the expertise of our wider public sector management team during the course of our audit appointment.



**David Eardley CA – Engagement Lead**

5. David has over 13 years' experience and specialises in external and internal audit of public sector clients. David's primary area of focus and expertise is in the health and education sectors.
6. David works with a range of public sector clients including the NHS, education and central government, from £1.3billion health boards to specialist central government entities.
7. David has a wealth of technical accounting expertise, coupled with strong interpersonal and client relationship skills. He is a member of several public sector technical accounting groups.

## Georgina Philp CPFA – Audit Asst Manager



8. Georgina has a wealth of public sector experience, delivering external audit services to a range of public sector bodies, including further education, local government, NHS and central government. She has strong technical accounting expertise and joined the firm from Grant Thornton's UK Public Sector team.
9. She works across our education, central government and NHS clients, bringing strong client management and interpersonal skills.
10. Georgina will manage the onsite audit team and work alongside David to deliver the audit engagement.

2

## Our experience

# Our experience

Our portfolio of new and previous/outgoing Audit Scotland external audit appointments is set out below. We have also included details of selected clients from across our wider public sector client base.

## New Audit Scotland external audit appointments

Local Government	NHS	Further Education	Central Government
City of Edinburgh Council	Lothian Health Board	City of Glasgow College	Disclosure Scotland
Lothian Pension Fund	Mental Welfare Commission for Scotland	Glasgow Kelvin College	Scottish Housing Regulator
Edinburgh IJB	NHS 24	Glasgow Regional Board	Police Investigation and Review Commissioner
Lothian VJB	National Waiting Times Centre Board	Glasgow Clyde College	Scottish Courts Service
SESTRAN	The State Hospitals Board for Scotland	Dumfries and Galloway College	Scottish Prison Service
Strathclyde Partnership for Transport		Borders College	Scottish Road Works Commissioner
Strathclyde Concessionary Travel Scheme JC			Lothian and Borders CJA

## Previous/outgoing Audit Scotland external audit appointments

Local Government	NHS	Further Education
North Lanarkshire Council	Lanarkshire Health Board	City of Glasgow College
Comhairle nan Eilean Siar	Borders Health Board	Glasgow Kelvin College
North Lanarkshire IJB	Mental Welfare Commission for Scotland	Glasgow Regional Board
Western Isles IJB	NHS 24	Inverness College
	National Waiting Times Centre Board	Lews Castle College
	The State Hospitals Board for Scotland	
	NHS Health Scotland	

## Some of our relevant clients beyond the Audit Scotland appointments

11. The table below lists some of our wider clients which demonstrate our strength and depth

across the Scottish public sector, and a flavour of the range of services we provide.

Client	Service provision
Scottish Funding Council	Internal audit
Edinburgh Napier University	Internal audit, Risk workshops, VAT/Tax
University of Dundee	Internal audit, Risk management support
Scottish Qualifications Authority	Internal audit, Risk workshops
Ayrshire College	Internal audit, Governance and risk management support
Edinburgh College	Internal audit, Risk management support
Forth Valley College	Internal audit
South Lanarkshire College	Internal audit, Governance and risk management support
West College Scotland	Internal audit
University of Bolton	External audit
West Lothian College	Internal audit, Governance and risk management support

## Scott-Moncrieff – expertise beyond internal and external audit

12. We can, and do, bring added value both to and beyond the audit process by involving our recognised specialists when required to solve client problems. We have a broad range of assurance and technical experts across such fields as:

- Business Technology Consulting;** including new systems development support, IT security, IT efficiency and effectiveness, project management, BCP/DRP and change management
- VAT:** compliance, health check, capital developments, consultancy and HMRC support
- Corporate Finance;** funding, finance, valuation, options appraisal, buy outs, consultancy
- Employer Solutions and Tax;** PAYE, employee benefits, compliance, efficiency and effectiveness reviews, remuneration and reward

- **Charity and not-for-profit;** accounting and governance expertise
  - **Lean expertise;** strategic, operational and cross-organisational consulting, for developing, new and established systems and processes
  - **Governance & risk management;** workshops, advice and best practice support to continuously improve all aspects of organisational governance and risk management arrangements
  - **Anti-fraud and regulatory support;** specialist advice to help clients risk-assess, deter, identify and respond to potential and alleged incidences of impropriety and any wider regulatory issues
13. Our network of experienced professionals can and do work alongside the audit team to help identify efficient and effective solutions to strategic and operational problems.





# Our audit approach

# Our audit approach

14. We have been appointed as your external auditor for the period 2016/17 to 2020/21. We are very much looking forward to working with you in this capacity over the next five years.
15. We anticipate that our audit will have a similar underlying approach to that of your previous external auditor, with continuity of the general role and responsibilities of external auditors in the public sector.
16. We firmly believe that the best and most effective audits are underpinned by establishing good, professional working relationships with key client contacts right from the outset and this will be our key aim in the coming weeks and months. The benefits of our audit approach include:
  - Fully compliant with the Audit Scotland Code of Practice
  - Dedicated, specialist public sector team
  - Proactive planning and communication - being open and constructive
  - Tailored audit approach
  - Clear and concise reporting
  - Risk based audit; understanding significant organisational and audit risks
  - Value-added review of internal controls, governance and performance arrangements
  - Proactive liaison with internal audit, for efficiency
  - Responsiveness, sector-expertise and independence of thought
  - Partner and Manager-led service, with a focus on team continuity

## Adding value

17. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We aim to add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help you promote improved standards of governance, better management and decision making and more effective use of public money.

18. We can, and do, bring added value to the audit process by involving our recognised specialists, as noted above. More widely, we are always looking to develop new and improved ways of exceeding our client expectations. Therefore, any comments you may have on the service we provide would be greatly appreciated.

**David Eardley**

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business advisers and accountants

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# DUMFRIES AND GALLOWAY COLLEGE

## Internal Audit Progress Report

21 February 2017



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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>.

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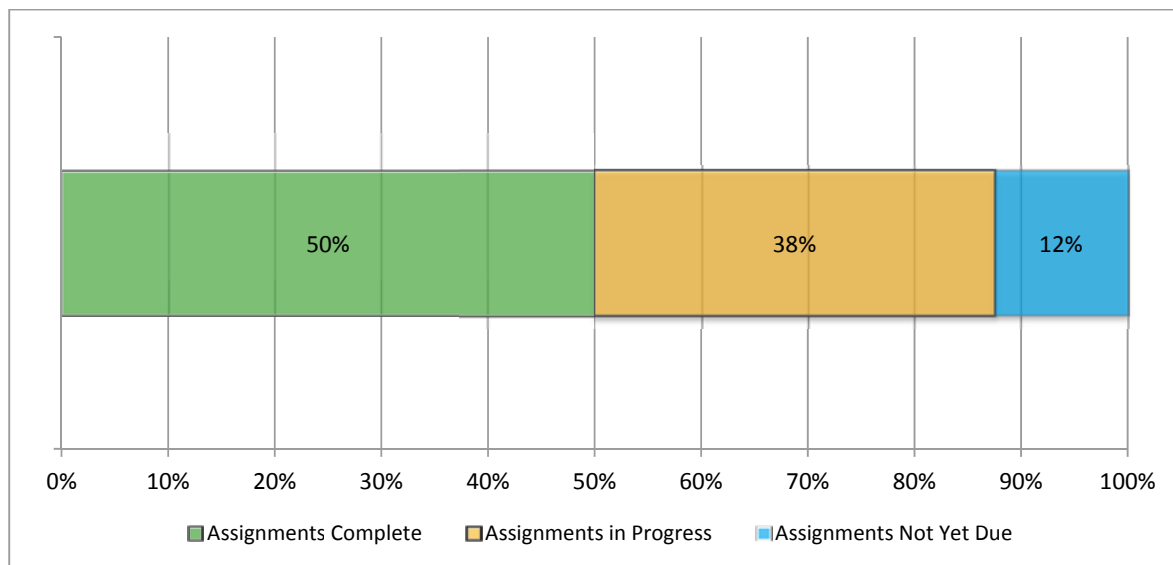
We have no responsibility to update this report for events and circumstances occurring after the date of this report.

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# 1 INTRODUCTION

The internal audit plan for 2016/17 was approved by the Audit Committee on 10 May 2016.

Please see the chart below for current progress against the plan.



## 2 LOOKING AHEAD

Assignment area	Status	Target Audit Committee per the IA Plan 2016/17
Income Generation	Fieldwork completed week commencing 13 <sup>th</sup> February	May 2017
Follow Up of Previous Internal Audit Recommendations	Fieldwork completed week commencing 13 <sup>th</sup> February	May 2017
IT Cyber Security	Fieldwork completed week commencing 13 <sup>th</sup> February	May 2017
Value for Money	Fieldwork planned for week commencing 24 <sup>th</sup> April	May 2017

## 3 OTHER MATTERS

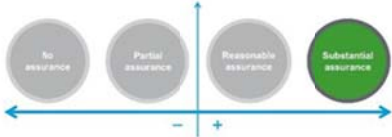
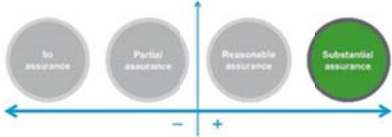

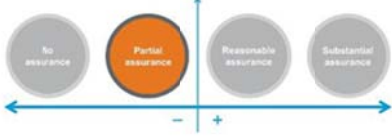
### 3.1 Key performance indicators (KPIs)

Delivery	Quality		Target	Actual
	Target	Actual		
Audits commenced in line with original timescales	Yes	Yes	Conformance with PSIAS and IIA Standards	Yes
Draft reports issued within 10 days of debrief meeting	10 days	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
			% of staff with CCAB/CMIIA qualifications	As and when required
				>50%
				67%
Final report issued within three days of management response	Three days	One day (average)	Turnover rate of staff	<10%
			Response time for all general enquiries for assistance	No staff turnover in 2016/17
				2 working days
% of High & Medium recommendations followed up	100%	Fieldwork completed week commencing 13 <sup>th</sup> February	Response for emergencies and potential fraud	1 working days
				N/A
Notes				



## APPENDIX A: INTERNAL AUDIT ASSIGNMENTS COMPLETED TO DATE

Reports previously seen by the Audit Committee and included for information purposes only:

Assignment	Opinion issued	Actions agreed		
		H	M	L
Student Support Fund		0	1	0
Student Activity Data		0	0	0
Safeguarding including the Prevent Agenda		0	1	2
Marketing and Communication		2	2	2

# FOR FURTHER INFORMATION CONTACT

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## Audit Committee

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### 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 The Report

- 2.1 In accordance 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 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. For completeness all risks are included in the attached register, in order of high to low ratings.
- 2.2 The Principal and Executive Management Team routinely review the Strategic Risk Register to reflect the risks the College is facing and the mitigation that will be applied to each risk. There are currently 14 strategic risks, three of which are rated 12 or above.
- 2.3 Three new risks have been added to the register since the committee last met but do not have residual risk rating above 9. They are:
- Risk no 12 - Potential Compulsory Redundancy of Curriculum Leaders
  - Risk no 13 - Potential disruption due to time delay in recruiting to the post of Vice Principal
  - Risk no 14 - Potentially no board governance/support while recruiting to the post of Board Secretary
- 2.4 Risk no 1 'national pay bargaining' rating has been reduced from 16 to 12 now that the pay award for 2016-17 has been agreed and implemented.

#### 3. Recommendation

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

## Strategic Plan 2016-2017 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 2017-18 is for maximum 1%, College budget will reflect this.	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	3	4	12	2016-17 pay award agreed and implemented	EMT
2	Public sector funding cuts - forecast for session 2017-18	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.	EMT
3	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 financial support from Scottish College Foundation to support College's continuing development. SFC Guidance on Depreciation, Deficits and transferring funds to ALFs	EMT
4	Unable to achieve credit (activity) target	3	3	9	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 EMT on a weekly basis 2. Reviewed by EMT 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	3	3	9	Early warning strategies to be implemented to improve early retention. Current dispute with UNISON could impact on retention	EMT
5	University of West Of Scotland - Review of property and provision in Dumfries.	4	3	12	1. Principal continue to discuss with Senior Management of UWS. 2. Principal and Vice Principal on the Joint Academic Strategy Group. 3. Regular reporting and discussion at EMT as information becomes available.		Internal/ External	3	3	9	Continue dialogue with UWS. Keep SFC informed of potential loss of contribution to college overheads from UWS for shared accommodation. Also potential loss of articulation opportunities for College students if UWS provision if reduced.	EMT
12	Potential Compulsory Redundancy of Curriculum Leaders	4	3	12	1. Consultation with Unions and staff on proposed curriculum restructure. 2. Following consultation and reflection final structure to be implemented.	1. Meeting with affected staff and Unions 2. Open Voluntary Severance Scheme 3. EMT meetings/minutes	Internal	3	3	9	Proposed Academic Restructure currently out for consultation. Consultation closes 17/2/17	EMT
13	Potential disruption due to time delay in recruiting to the post of Vice Principal	4	4	16	1. Finance moving to another experienced EMT member 2. Interim arrangements in place - Principal to assume portfolio	1. Continuity of strategic finance 2. Experienced operational managers 3. Seek experienced staff from sector for FES return if required	Internal	4	2	8		EMT
14	Potentially no board governance/support while recruiting to the post of Board Secretary	4	4	16	1. Short term arrangements - VP Corporate Services & Governance to assume role (until April)	1. Seek experienced staff from sector / consultant to support new appointee	Internal	4	2	8		EMT

## Strategic Plan 2016-2017 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		
6	Failure to achieve attainment targets	4	4	16	1. Real time monitoring systems in place 2. Strategies in place to improve retention. 2. 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 may be a condition of grant. Low attainment can also be detrimental to college reputation.	EMT
7	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	College to develop an access and inclusion strategy detailing how ELS funding be used	EMT
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 recommendations)	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 recommendations	EMT
9	Prevent Duty – disruption due to threat of extremism / risk of external influences	3	4	12	1. Vice Principal attendance at local multi-agency CONTEST group 2. Regular reporting of Prevent issues at EMT. 3. Constant scanning to identify new potential threats.	1. College Prevent Action Plan 2. CONTEST meetings/minutes 3. EMT meetings/minutes	Internal	2	2	4	Vice Principal leading on Prevent Action Plan, any issues would be identified through regular reporting at EMT. Immediate concerns to be raised with contact within Police Scotland. Review of evacuation procedures in relation to 'stay safe' principles planned for September 2016	EMT
10	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.	EMT
11	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. EMT meetings/minutes	Internal	1	2	2	No further action. Although policy not specifically reviewed, any issues would be identified through regular reporting at ET.	EMT

Mrs Carol Turnbull  
Principal  
Dumfries and Galloway College  
College Gate  
Bankhead Road  
DUMFRIES  
DG1 4FD

12 December 2016

Dear Mrs Turnbull,

### Audit Scotland Statutory fees – 2016/17 audits

The purpose of this letter is to give you an indication of the fees for the audit of Dumfries and Galloway College for the 2016/17 audits. These are based on budget proposals that will be considered by the Scottish Commission for Public Audit (SCPA).

### Review of fee setting arrangements

We have completed a review of funding and fee setting arrangements and revised our fee strategy. The two key principles underpinning our fee setting arrangements are that:

- audit fees should be set with the objective of recovering the full cost of audit work in each sector
- the cost of the audit should be independent of the identity or location of the auditor

We have prepared the attached paper *Our approach to setting audit fees*<sup>1</sup> to provide feedback on the consultation and summarise the arrangements that we have adopted in setting fees for 2016/17.

Over the period from 2010/11 to 2015/16 we have reduced average fees by 24% in real terms and overall our fees will further reduce by 8.6% in real terms for 2016/17 audits. However the impact on bodies will vary as a result of the:

- different savings achieved between sectors in the audit procurement exercise,
- proposed transfer of funding for NHS performance audit costs to the SCPA,
- rebasing of some fees to reflect the actual costs of carrying out the audits
- commitment to achieve full cost recovery in each sector

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### Fees

The expected fee for each body assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for the audit.

Overall the sector will see an increase in fees of £10,000 (2.2%) to bring income fully into line with the actual cost of auditing in the sector. Several recently merged colleges will see reductions of 3 - 4% and others an increase of 3%. Colleges that have not undergone mergers will see increases of £1,650 - £2,200 to better reflect the actual cost over a number of years of delivering these audits in compliance with the Code of Audit Practice.

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<sup>1</sup> [http://www.audit-scotland.gov.uk/uploads/docs/um/audit\\_fee\\_approach.pdf](http://www.audit-scotland.gov.uk/uploads/docs/um/audit_fee_approach.pdf)

## Expected fee for 2016/17

The expected fee for Dumfries and Galloway College for the 2016/17 audit is:

	2016/17	2015/16
Auditor remuneration	£13,600	
Pooled costs	£850	
Performance audit and Best Value	£	
Audit support costs	£770	
Total expected fee	£15,220	£13,370

This represents an increase of 13.8% from 2015/16. The actual amount that you will pay will depend on the amount of the audit fee agreed with your auditor Scott-Moncrieff. Fees can be agreed between the auditor and audited body by varying the auditor remuneration by up to 10% above the level set, for example, where significant local issues require additional work to be undertaken. In exceptional circumstances higher remuneration can be agreed with the prior agreement of Audit Scotland.

## Future fees

At this point we expect to be able to make real terms reductions in fees for 2017/18 and 2018/19 audits.

## What do audited bodies receive for the fee?

The scope of the public sector audit model in Scotland, as explained more fully in Public audit in Scotland<sup>2</sup> means that the audit fees cover a wide range of audit work and related outputs.

All bodies receive a **financial statements audit** that includes an auditor's opinion on whether the financial statements present a true and fair view for the year. This opinion is supplemented by an annual audit report that summarises the key audit findings and auditor conclusions on aspects of the wider scope requirements of the Code of Audit Practice. These are public documents and help to explain the local audit work that was undertaken and key findings.

Every year around 10 to 12 **performance audit reports** are produced. The aim of these is to provide independent assurance to the people of Scotland that public money is being spent properly and that it provides value for money. Local government bodies contribute to the costs of relevant reports through audit fees. Other performance audit work is funded by the Parliament. Some examples of forthcoming reports **due out in 2017 and 2018** are:

- 
- Local government overview reporting in 2016/17
  - Managing new financial powers
  - Equal pay
  - NHS workforce - part 1: clinical workforce in acute hospitals
  - Self-directed support: a follow-up audit

All published performance audit reports are available on the Audit Scotland website.  
Invoices

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<sup>2</sup> [http://www.audit-scotland.gov.uk/docs/corp/2015/as\\_150511\\_public\\_audit\\_scotland.pdf](http://www.audit-scotland.gov.uk/docs/corp/2015/as_150511_public_audit_scotland.pdf)

Bodies will be invoiced as follows:

- May 2017 (1/2 of expected fee)
- September 2017 (total charges, less the first instalment).

A final invoice will be issued, if necessary, once all 2016/17 audits are complete, to adjust for any late changes to agreed fees.

Please let me know if there is anything that you wish to clarify or discuss further.

Yours sincerely

A handwritten signature in black ink, reading "Russell A J Frith". The signature is written in a cursive style with a large initial 'R'.

Russell AJ Frith  
Assistant Auditor General






# Our approach to setting audit fees



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Audit appointments are made by the Auditor General or the Accounts Commission. This helps ensure the independence of external audit.

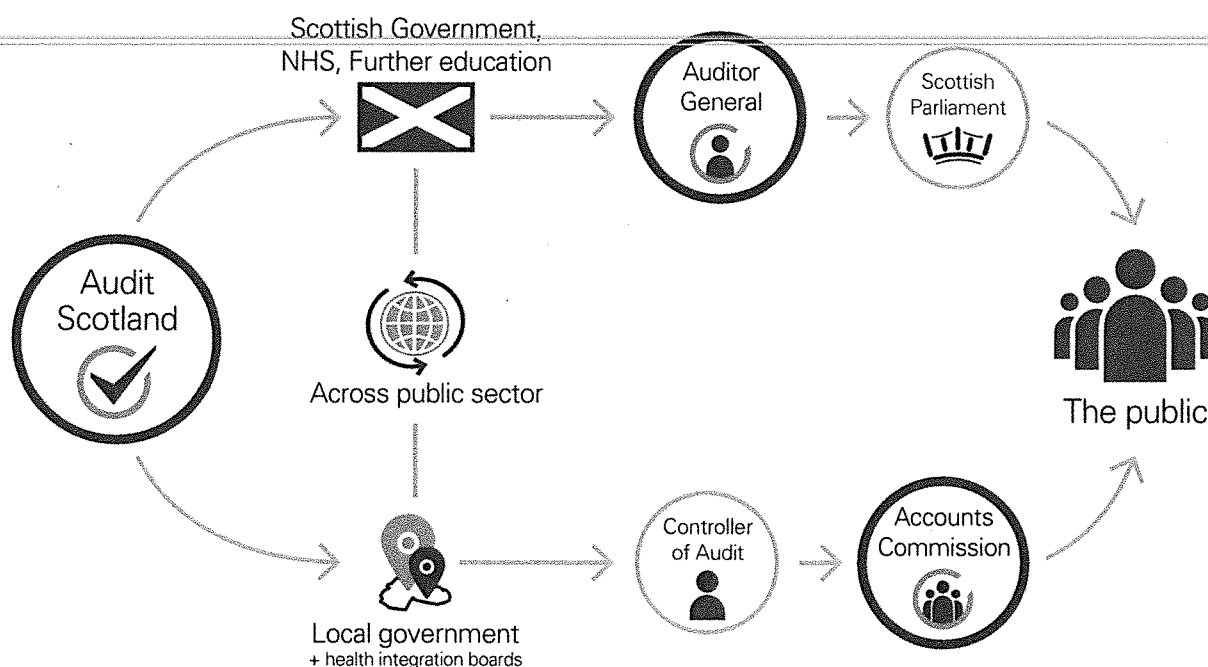
[Find out more](#) 

## Key messages

- 1 We have completed a review and consultation on funding and fee setting arrangements.
- 2 We carried out a successful audit procurement exercise leading to new audit appointments being made for the 2016/17 to 2020/21 audits.
- 3 Our aim is to deliver independent, consistent, high quality, wider scope public audits while achieving best value in our use of resources.
- 4 Fee changes will vary across individual bodies and overall we will reduce average fee levels for the 2016/17 audits by 6.7% (8.6% in real terms).
- 5 We expect to make further real terms reductions in fee levels for 2017/18 and 2018/19 audits.
- 6 These are on top of a 24% reduction on average in real terms between 2010/11 and 2015/16 audits.
- 7 Our 2017/18 budget proposal includes the transfer of funding for NHS performance audit from audit fees, to the SCF (Scottish Consolidated Fund). The proposed transfer is cost neutral as we will reduce audit fees by the same amount.

## Introduction

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland. The Auditor General and the Accounts Commission appoint external auditors to most public bodies in Scotland. Audit Scotland provides services to the Auditor General and the Accounts Commission, including carrying out annual audits, performance audits and Best Value audits.



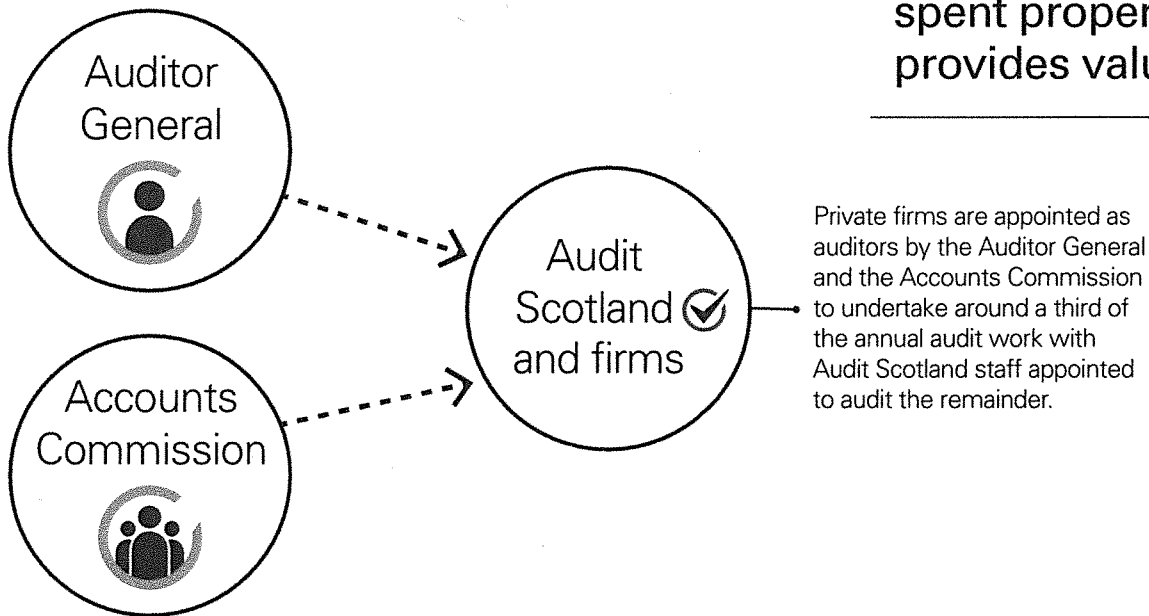
## Our purpose

- We carry out relevant and timely audits of the way the public sector manages and spends money.
- We report our findings and conclusions in public.
- We identify risks, making clear and relevant recommendations.

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**we provide  
independent  
assurance to the  
people of Scotland  
that public money is  
spent properly and  
provides value**

---



## About our audits

**Annual audits** are undertaken by Audit Scotland staff and private firms appointed by the Auditor General and the Accounts Commission.

**Performance audits** are carried out by Audit Scotland staff with assistance from external specialists and appointed auditors where appropriate.

**Best Value audit** work is carried out by appointed auditors of councils as part of the annual audit. Reports by the Controller of Audit to the Accounts Commission are prepared for each council at least once in each five-year audit appointment period.

To support our vision of world-class high-quality audit and to maintain independence, audit appointments are rotated every five years. During 2015/16 we carried out an audit procurement exercise leading to appointments of in-house teams and external firms being made to over 220 bodies for five years from 2016/17.

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**high-quality audit,  
independence,  
five-year rotation**

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## How we are funded

Audit Scotland's work is funded by a combination of fees charged to audited bodies and resources provided by the Scottish Parliament. About three quarters of our income comes from fees.

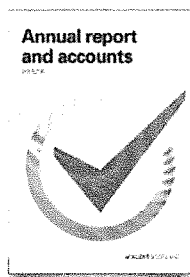
Audit Scotland is responsible for setting the level of fees charged to audited bodies.

The projected fees form part of Audit Scotland's budget proposal to the Scottish Commission for Public Audit which considers the proposal, takes evidence on it in public and reports to the Finance Committee of the Scottish Parliament as part of the overall scrutiny of the annual Budget Bill.

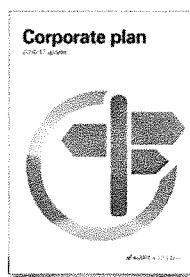


Note: 1- Other costs include property, IT, travel and subsistence, and depreciation.

## Find out more:



Annual report and accounts,  
2015/16 



Corporate Plan,  
2016/17 

## Fee strategy

### About our fee strategy


Our vision is to be a world class audit organisation that improves the use of public money.

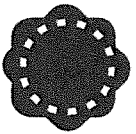
**In order to deliver our world class vision we have:**




Consulted stakeholders about their expectations of audit



Published *Public Audit in Scotland* , a high-level statement on the scope of public audit by the Auditor General, the Accounts Commission and Audit Scotland



Revised the *Code of Audit Practice*  to raise expectations of auditors in conducting wider scope public sector audits and increase the transparency of audit work



Carried out an audit procurement exercise to underpin new audit appointments by the Auditor General and the Accounts Commission for the period 2016/17 to 2020/21

In 2016, we completed a review and consultation of our approach to funding our work and the fee setting arrangements. This was to improve transparency, making them easier to understand and operate. These new arrangements apply from the 2016/17 audits.

In setting a fee strategy our aim is to provide high-quality independent public audit in Scotland while delivering best value in our work.

This means our fee strategy needs to:

- comply with statute
- maintain the independence of Audit Scotland and its auditors
- reflect the way in which public services are organised and audited
- be transparent, easy to understand and simple to operate
- be sustainable and not volatile from year to year without reason.


### Key principles

To achieve this the Audit Scotland Board established two key principles:

- That audit fees should be set with the objective of recovering the full cost of audit work in each sector.
- That the cost of the audit should not depend on the identity or location of the auditor.

establish a  
transparent  
framework for the  
setting of fees and  
charges in a stable  
and predictable way

consistent,  
transparent and  
sustainable

*Consultation on Audit  
Scotland fee setting  
arrangements* 

## Consultation feedback

In the summer we consulted with audited bodies and other stakeholders on the principles underlying the strategy and the approach to calculating fees:

We asked stakeholders whether they:

- agreed that audit fees should be set with the objective of recovering the full cost of audit in each sector
- supported the principle that an audited body should pay the same fee irrespective of who is appointed to deliver the audit
- agreed that some costs should be pooled across each sector
- agreed with the proposed approaches to sharing pooled costs between bodies
- thought that we could be more transparent in showing how fees were constructed.

The respondents agreed with the principles of full cost recovery and that the audit fee should be the same whoever carried out the audit. They also agreed with the concept of cost pooling and the approaches to sharing these costs between bodies.

Bodies also welcomed the commitment to greater transparency and the proposal to provide a breakdown of the total fee. Some respondents suggested that we should provide a detailed breakdown of the time to be spent on each audit. Our approach to appointing auditors means that it is for each auditor to use their professional judgement to determine the grades of staff and length of time to be spent on the audit rather than the time being set centrally.

## About the fees we charge

We reviewed and revised the costs of individual audits using information on the actual cost of delivering the audits. In some sectors this has resulted in increases for some smaller bodies and reductions for larger bodies.

We have revised the way in which audit fees are presented and explained to audited bodies and the mechanism for agreeing adjustments to fees to reflect local circumstances.

## Which organisations pay audit fees?

- Fees are set for all local government audit work and the costs of annual audit work in the NHS, central government, Scottish Water and further education colleges.
- Local government has separate democratic accountability and its funding includes an amount for scrutiny costs such as audit. Therefore local government bodies pay for all audit work across the sector. This includes Performance & Best Value audit work.
- The same principles are used to calculate notional fees for the central government audits that we cannot charge for.

## What does Parliamentary funding pay for?

- Annual audits of the central government audits that we cannot charge for.
- All performance audit work in central government, further education and Scottish Water.
- In our 2017/18 budget proposal to the Scottish Commission for Public Audit, we include a proposal to transfer to parliamentary funding the remaining proportion of the cost of NHS performance audit work currently funded through fees.
- The cost of supporting Parliament and its committees, the National Fraud Initiative and the costs of the Auditor General, Accounts Commission and Audit Scotland Board.

## Calculating and communicating audit fees

For 2016/17 audits onwards we will provide the following breakdown of the total audit fee for each audited body:

	Current year	Prior year (from 2017/18)
Auditor remuneration	£-	£-
Pooled costs	£-	£-
Performance audit and Best Value (where relevant)	£-	£-
Audit support costs	£-	£-
Total expected fee	£-	£-

Please refer to your individual fee letter

## Auditor remuneration

Auditor remuneration for an individual body is based on our assessment of the audit work likely to be required to deliver an audit. The audit must comply with the Code of Audit Practice for a body of that size facing the normal risks for its part of the public sector.

The auditor remuneration assumes that the body has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for the audit.

Fees can be agreed between the auditor and audited body by varying the auditor remuneration by up to 10% above the level set, for example, where significant local issues require additional work to be undertaken. In exceptional circumstances higher remuneration can be agreed with the prior agreement of Audit Scotland.

If the auditor and audited body agree that a permanent reduction in audit cost is appropriate then we will consider the proposal taking account of any potential impact on audit quality.



## Pooled costs

We aim, as far as possible, to ensure an audited body should pay the same fee irrespective of whether the auditor is an Audit Scotland team or any of the appointed private firms. This supports auditor independence and the rotation of auditors.

This means we pool some costs which would otherwise lead to different fees being charged depending on the identity or location of the appointed auditor. These pooled costs are currently distributed across the audited bodies in each sector in proportion to the expected level of auditor pay. Pooled costs are:

- travel and subsistence costs
- procurement savings above those reflected in the auditor remuneration level
- any difference between the full costs of Audit Scotland teams and the auditor remuneration amount for their audits
- recoverable input VAT (local government only).

## Performance audit and Best Value audit costs (local government only)

**Local government bodies** pay for the cost of **all** audit work carried out in the sector. All councils carry out a similar range of services and therefore they benefit from the recommendations for improvement and good practice identified in Best Value reports at other councils.

For **performance audit work**, including the costs of responding to correspondence from elected representatives and members of the public about issues in local government bodies, the budgeted costs are distributed between significant local government bodies (councils, Integration Joint Boards and Strathclyde Passenger Transport) in proportion to the level of auditor remuneration.

For **Best Value audit and housing benefit audit** the amount of money received by councils towards the cost of this work is divided between the 32 councils only on the basis of relative populations in June 2015.

## Audit support costs

Audit Scotland incurs ongoing costs, eg making audit appointments, providing assurance on audit quality and providing technical guidance and support to appointed auditors. These costs are shared across all audits relative to the level of auditor remuneration.

## Audit fees for 2016/17 audits

### Fee levels

We're proposing, subject to consideration of our 2017/18 budget by the Scottish Commission for Public Audit, to reduce average audit fees for 2016/17 audits by 6.7%, building on real terms reductions of 24% since 2010/11, through a combination of the review of fees and funding the recent audit procurement exercise and further Audit Scotland budget savings.

**Table 1** shows there is variation between sectors. These differences arise from the varying prices bid for audit work in different sectors and applying a revised cost distribution methodology consistently across all sectors. The NHS reduction includes the effect of the proposed transfer of performance audit costs to the Scottish Consolidated Fund.

	2016/17 total fees £m	Average change on 2015/16 fees (percentage)
Local government	11.1	-4.5
NHS	3.0	-20.5
Central government-chargeable audits	1.8	3.3
Further education	0.5	2.2
<b>Overall average cash reduction</b>		<b>-6.7</b>

The fee movements shown in Table 1 are based on us achieving a break even position for the 2017/18 financial year in all sectors.

## Summary information on fee movements by sector

### Local government

The average reduction in audit fees from the 2015/16 audit fees for local government bodies is 4.5% arising from Audit Scotland savings and the recent audit procurement exercise. For councils the reductions range from 0% for smaller councils to 12% for the largest. For Integration Joint

Boards 2016/17 will be the first full year of operation and fees will be agreed locally between auditor and audited body depending on the scope of IJB activity and the arrangements in place to obtain robust financial information. For other local government bodies fees will be held at 2015/16 levels.

The fees are on a like-for-like basis and do not take account of any changes in the volume of audit work required as a result of, for example, changes in accounting requirements. For 2016/17, council fees do not take account of any additional audit work that may be agreed with auditors to prepare for the full audit of Highways Network Assets now expected to be required for 2017/18.

## **NHS**

The average reduction for NHS bodies is 20.5%. Mainland territorial boards will see fee reductions of 26%–30% including the reduction attributable to the proposed transfer of funding for performance audit work. Special health boards, apart from NHS 24, will see fees remain at 2015/16 levels. NHS 24 will see an increase in its expected fee of £5,500 to reflect the actual fee levels being charged in recent years. Island health boards will see increases of £2,500–£7,500 reflecting the actual cost of carrying out these audits over recent years.

### **Further education**

Overall the sector will see an increase in fees of £10,000 (2.2%) to bring income fully into line with the actual cost of auditing in the sector. Several recently merged colleges will see reductions of 3%–4% and others an increase of 3%. Colleges that have not undergone mergers will see increases of £1,650–£2,200 to better reflect the actual cost over a number of years of delivering these audits in compliance with the Code of Audit Practice.

### **Central government – chargeable**

Overall chargeable central government fees will increase by 3.3%. For larger bodies the increases will be around 2% and for smaller bodies generally 5%–6% (£130–£1,000) to better reflect the actual cost of carrying out these audits in recent years.

### **Central government – non-chargeable**

For those central government audits where Audit Scotland cannot charge a fee, the notional audit cost notified to the bodies will increase by an average of 1.9%.



# Our approach to setting audit fees

This report is available in PDF and RTF formats, along with a podcast summary at:

[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) 

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500

or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk) 

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