

Board of Management Audit Committee

Date: 21 November 2016

Time: 12:30 pm

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 10 May 2016 | (attached) | HC |
| 4 | Minute of Meeting of 20 September 2016 | (attached) | HC |
| 5 | Matters Arising | | HC |
| 5.1 | Update on Lennartz Ruling | (attached) | KH |
| 6 | 2015-16 External Audit Annual Report | (attached) | AP |
| 7 | 2015-16 Financial Statements | (attached) | KH |
| 8 | Internal Audit Reports | | |
| 8.1 | Student Activity Data | (attached) | PC |
| 8.2 | Student Support Funds | (attached) | PC |
| 8.3 | Safeguarding | (attached) | PC |
| 8.4 | Marketing and Communication | (attached) | PC |
| 8.5 | Follow-up Report | (attached) | PC |
| 9 | Strategic Risk Register | (attached) | JB |
| 10 | Any Other Business | | |
| 11 | Date and Time of Next Meeting – Tuesday, 21 February 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 November 2016 at 12.30pm in Room 1074b

Present:	Hugh Carr (Chair) Stuart Martin	Pat Kirby
In attendance:	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 nothing 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 6th 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.

Board of Management

Minute of the Meeting of the Audit Committee of the Board of Management of Dumfries and Galloway College held on 10 May 2016 at 2 pm in Room 2009

Present:	Hugh Carr (Chair) Stuart Martin	Pat Kirby
In attendance:	Carol Turnbull, Principal Philip Church, Client Manager, RSM Jannette Brown, Secretary to the Board and Vice Principal Corporate Services & Governance Kay Bird, (new Secretary to the Board)	Karen Hunter, Finance Manager Angela Pieri, Grant Thornton
Minute Taker:	Heather Tinning, Executive Team Assistant	

1 Apologies

The Chair welcomed members to the meeting, in particular Kay Bird, the new Secretary to the Board. 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 Previous Meeting

The Minute of the Audit Committee meeting held on 8 March 2016 was approved.

4 Matters Arising

In terms of the Account Year-End, the Principal confirmed that there was no update to report at present and that the Account Year-End will remain at 31st July.

5 Internal Audit Reports

5.1 Human Resources Effectiveness

Mr Church spoke to the report which had been issued, advising that the Human resources controls were found to be well designed and operating efficiently. Three management actions were identified. The college's policies and procedures are benchmarked against other colleges within the sector, and key findings are highlighted in the report. The findings summary identified issues relating to non-completion of four SD1 forms, and minor issues with the completion of two interview evaluation forms. In terms of the Rating identified as Amber/Green, Mr Church advised that this was

based on RSM's methodology, and that the rating was more directed towards Green, which would have been applied if there had been no medium issue identified.

5.2 Procurement

Mr Church spoke to the report which had been issued, following an audit of Procurement as part of the approved internal audit periodic plan for 2015/16. It was identified that there was reasonable assurance that the college had adequate controls that were well designed and fully implemented. The key findings confirmed that all the procedures had been adhered to with the transactions in the PECOS system. Mr Church referred to the findings in terms of the supplier sourcing procedures in particularly in the case of Construction. The Finance Manager reported that the Finance Department contact firms to ensure that the information received is correct, especially with change of bank details, to help prevent any fraud.

5.3 Progress Report

Mr Church spoke to the report which had been issued. Mr Church identified the main areas of concern in the key findings of the assignments:

- Human Resources Effectiveness
- Procurement
- Follow Up

The Impact of findings had been extracted from the Human Resources Effectiveness and Procurement Reports. Appendix A identified the other reports that had previously been to the Committee. A summary on progress will be discussed at the September meeting.

5.4 Internal Audit Plan 2016-17

Mr Church spoke to the report which had been issued. He spoke of the recent fundamental changes resulting in the re-evaluation of the colleges' strategic aims and priorities, and highlighted the six Strategic Outcomes that had been identified by the college. In order to approve the Internal Audit Strategy, the committee were asked to confirm that the annual plan provides sufficient assurance to monitor the college's risk profile effectively and that the plan covers the key risks of the college. In order to alleviate pressure on the Student Funding team, Student Support Audit will take place week commencing 20th June. In terms of Income Generation, the Vice Principal CS&G advised that both campuses will be audited to ensure that processes and controls are in place in terms of best practice. The appendix B, included in the report, highlights how the strategy links into the college risk register.

Decision: The Committee formally approved the Internal Audit Plan 2016-17

6 External Audit Plan 2015-16

The Vice Principal, Corporate Services & Governance, spoke to the report which had been issued, advising that this is the last year of the college's five-year work under work of Audit Scotland Contract. The draft External Audit Plan had now been confirmed, with no fundamental changes to

be made. The Vice Principal, Corporate Services & Governance highlighted the key areas in terms of the key changes resulting from FRS102. Accounts will be prepared for the year ending 31 July 2016 on an IFRS basis for the first time. In terms of the key phases of the audit cycle, following the final accounts visit in October 2016, the accounts will be presented to the committee in November for sign off. Discussion surrounded the fees for the college audit and other services, members were advised that indicative fees, which have remained stagnant, are set by Audit Scotland. A letter from Audit Scotland is received by the college informing of the fee level, which is also presented at the Audit Committee.

7 Strategic Risk Register

The Vice Principal, Corporate Services & Governance spoke to the report which had been issued highlighting the three changes that had taken place since the last committee meeting. The Vice Principal, Corporate Services & Governance sought member's views on risk number six, review of property and provision in Dumfries, and advised that the SRUC is not part of the discussion at this stage. Members discussed the report and approved the key changes.

Decision: Strategic Risk Registers changes approved

8 Review of Risk Management Policy

The Vice Principal, Corporate Services & Governance spoke to the report which had been issued, following review of the Policy by the Executive Management Team. The Secretary advised that the report highlights mainly terminology changes and that there was nothing significant to note.

Decision: The Committee agreed that the changes were robust and clear and approved the revised policy

9 Audit Scotland Letter re change of External Auditors

The Vice Principal, Corporate Services & Governance spoke to the Audit Scotland letter which had been issued advising that the college has a change of External Auditor from next year. The proposed Auditor for the college is Scott Moncrieff, to commence on 1st August 2016. The Vice Principal, Corporate Services & Governance advised that the College had no part in the selection process. Angela Pieri advised that she is currently working towards completing this financial year prior to the new appointment. She advised that the protocol when taking over or giving up new audits is for both parties to share new policies. The Principal advised that Audit Scotland are looking to meet with College Principals on an individual basis, as part of a review of regionalisation and looking at wider governance issues.

10 Any other Business

None.

11 Date and Time of Next Meeting

The next meeting of the committee planned to take place on Tuesday 20 September 2016 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 20 September 2016 at 2 pm in Room 1074b

Present: Hugh Carr (Chair)
Delia Holland

In attendance: Carol Turnbull, Principal
Philip Church, Client Manager, 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

1 Apologies

The Chair welcomed members to the meeting. Apologies for absence were intimated on behalf of Stuart Martin and Pat Kirby.

The Secretary to the Board confirmed the meeting was inquorate and no decisions could 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 meeting held on 10 May 2016 could not be approved and will be carried forward to the next meeting to be held on 22nd November 2016.

4 Matters Arising

No matters arising.

5 Internal Audit Reports

5.1 Follow-up Report

Mr Church spoke to the report which had been issued, advising that out of the 12 recommendations 11 were medium priority and one high priority. Reasonable progress is being made, 8 have been fully implemented and one recommendation is one-going. Three are still to be implemented in relation to Institutional Sustainability, revised dates for implementation have been agreed, and is a reflection on what is happening within the Sector. The members noted the report.

5.2 Annual Report 2015-16

Mr Church spoke to the report which had been issued, and confirmed the College has an adequate and effective framework for risk management, governance and internal control. No issues need to be flagged. There were no significant issues raised in connection with Risk Management which is linked to the College's Risk Register and Student data. The Committee discussed the implementation of the internal audit recommendations, performance indicators and Annual Opinions. Delia Holland asked Mr Church to explain further the 'reasonable progress' indicator given and Mr Church advised he was comfortable with the reasoning behind the outstanding recommendations which was indicative with what was happening within the sector. The Chair of the Board of Management commented that there had been a lot of work and changes on governance and board development and Mr Church advised the college was making good steady progress in these areas. The members noted the report.

6 Audit Scotland Reports

The Vice Principal, Corporate Services & Governance, spoke to the reports which had been issued and the Committee discussed the individual reports and lessons to be learned, as follows:-

6.1 Coatbridge College

The key point was the governance weakness at the Coatbridge College in relation to severance arrangements. The Vice Principal, Corporate Services & Governance confirmed there is SFC guidance which has come to the Board and there are systems in place within the College on severance pay which should give the Committee assurances. The College publishes all agendas, minutes and reports on its website.

6.2 Glasgow Clyde College

The key point here was the Board of Glasgow Clyde College did not comply with the Code of Good Governance. The Vice Principal, Corporate Services & Governance confirmed this College complies with the Code of Good Governance.

6.3 Edinburgh College

The key point was the Edinburgh College did not deliver on its credit target and got into financial difficulties. The Vice Principal, Corporate Services & Governance advised the Committee can take reassurance from the Internal Auditor's reviews on Student Activity. The Principal further advised the SFC had further tightened up this area too.

6.4 Glasgow College Board

The key point is the college, which is a regional strategic body for the Glasgow region operates in a different way to Dumfries & Galloway College, lacked systems in place for internal control. The Vice Principal, Corporate Services & Governance gave reassurance to the Committee that this College has effective systems in place which is evidenced by internal audit reports.

6.5 Scotland's Colleges 2016

The Committee discussed the report. The recommendation is that colleges should develop long term financial strategies, for a minimum of 5 years. The Chair asked how practical was this and the

Vice Principal, Corporate Services & Governance advised that as the college is financed on a yearly basis it was a difficult exercise and would be based on aspirations, a worse case and best case scenario. It is not known what affect national pay bargaining will have on colleges. The Principal commented that it is disappointing this is a requirement as a lot of college resources will be used for little benefit to the college.

The members noted the reports

7 2015-16 Draft Audit Committee Annual Report

The Chair spoke to the report. The Vice Principal, Corporate Services & Governance advised there were two typographical errors, one at point 3.2 and one at 7.3 which she confirmed would be amended. The Chair was happy with the report, which he confirmed could be taken to the Board Meeting on 4th October 2016.

Action: The report will be amended and presented to the Board on 4 October 2016 for Board approval.

8 Scottish Funding Council Financial Memorandum – Additional Requirements

The Vice Principal, Corporate Services & Governance spoke to the report which had been issued, together with the Financial Memorandum and SFC Guidance documentation. The report summarised the revisions to the Financial Memorandum and the Vice Principal, Corporate Services & Governance confirmed that the College was compliant in all areas with the exception of 'Cash Management and Banking'. The College was waiting to hear from Royal Bank of Scotland and the deadline for implementation will be pushed back as there are delays with the Scottish Government and Royal Bank of Scotland. This matter will need to go to the Board in due course. Members noted the report.

9 Informing the Audit – Risk Assessment

Angela Pieri spoke to the report. The Auditors have a duty to ask set question and show management's responses and confirm these processes are in place. Brian Johnstone highlighted an error on page 7 of the report, the Committee is just called the Audit Committee and not the Audit and Risk Management Committee. Angela Pieri acknowledged this as an error. Brian Johnstone asked what procedures the College has in place for litigation matters. The Vice Principal, Corporate Services & Governance advised the procedure would depend on the matter and may go to the Chair of the relevant Committee and or Chair of Board of Management. The matter would be reported to the College's insurers. The Chair asked whether there was a financial limit that if exceeded the matter would be referred to the SFC. The Principal and the Vice Principal, Corporate Services & Governance advised that there were limits in relation to severance / settlement pay but not for legal claims.

10 Update – Challenging to Lennartz Ruling

The Finance Manager spoke to the report which was an update on her previous report. The Committee discussed the updates and members noted the report.

11 Strategic Risk Register

The Vice Principal, Corporate Services & Governance spoke to the report and the Committee was asked to review the College's Strategic Risk Register. It was reported there were no new issues identified since the previous risk register. The report could not be approved.

Action: The report will be tabled at the next Board meeting.

12 Any other Business

The Finance Manager confirmed that the external audit was to commence on 3rd October 2016 for three weeks and that there had been big changes to the accounting format and report. The Accounts will be going to the next Finance & General Purposes Committee. Brian Johnstone asked whether the Finance Manager could produce a one page key fact document on the accounts. It was suggested the Vice Principal, Corporate Services & Governance, the Finance Manager, the Chair of Audit, the Chair of F&GP and the Regional Chair could consider appropriate wording of notes to explain the technical deficit in the accounts.

Action: The Vice Principal, Corporate Services & Governance to circulate accounts to above mentioned once wording has been completed.

13 Date and Time of Next Meeting

The next meeting of the committee is to take place on Tuesday 22 November 2016 at 2 pm.

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.

Angela Pieri and Philip Church both advised there was no issues with the college and everything was in order with a good risk management policy imbedded.

Audit Committee

Update on Lennartz Ruling

1. Introduction

The purpose of this report is to update members on recent developments regarding the Scottish college's Lennartz agreements with HMRC.

2. Report

Three of the Scottish colleges who have submitted claims on the basis of the advice from Ernst & Young have subsequently had their claims rejected by HMRC. HMRC's response stated that the claims had no sound basis for making a claim and noted that penalties and interest may be charged if the claims are found to be 'spurious'.

Ernst & Young's litigation department have reviewed the current position and the only option now available would be to proceed to a VAT Tribunal. They have advised that HMRC are expected to defend their position very strongly, and as any litigation process could be lengthy they have confirmed that they are effectively 'stepping back' from taking any further action on behalf of the colleges. The other colleges have considered the option of appointing a different VAT adviser, and the potential costs and likelihood of a successful outcome, and decided not to proceed any further.

Scott Moncrieff have not yet received any additional advice from HMRC regarding the option to unwind Lennartz. The Lennartz agreement with HMRC is due to be completed in July 2018, and the annual adjustment will be calculated in the next month based on the 2016 financial statements. The Executive Management Team will keep a watching brief for any further advice from Scott Moncrieff in this regard, taking into account the short time remaining on the agreement, and any changes to scheduled payments remaining.

3. Recommendation

The Executive Management Team recommends that no further action is taken regarding the College Lennartz agreement at this time, subject to any further advice from Scott Moncrieff.

Dumfries and Galloway College

Annual Report to the Board of Management and the Auditor General for Scotland

Year 2015/16 (12 months ending July 2016)

November 2016



Executive Summary

Overall summary for the College

Financial statements

- Subject to the satisfactory completion of the audit, we intend to give an unqualified opinion on both the financial statements of the College and on the regularity of transactions undertaken for the 2015/16 financial year.
- The financial statements relate to the year to 31 July 2016. Comparator figures within the financial statements relate to a 16 month period from 1 April 2014 to 31 July 2015 as a result of changes to the accounting period end in 2014/15.
- Financial Reporting Standard (FRS) 102 is applicable to the 2015/16 financial statements and as a result the College restated their financial position for 2014/15 in line with FRS102 and complied with the additional disclosure note requirements. No significant issues were identified in the audit of the FRS102 conversion entries.
- The draft financial statements and supporting working papers were a good standard and all available at the start of the audit, and queries were responded to promptly.
- One amendment was identified to primary statements due to a £1,000 understatement in cash and income, with associated reserves and cash flow statement entries adjusted as a result. Any other amendments identified during the audit were in disclosure notes and in comparator figures. Management have amended all identified misstatements in the final version of the financial statements.
- Senior officer comparator disclosures within the Remuneration and Staffing Report required amendment due to incorrect casting.
- We operate a risk based approach when planning our audit work and focus our audit effort on the areas with the highest risk. Risks identified and reported to you in the Audit Plan were reviewed, their control environment assessed and substantive testing of the balances and transactions undertaken. There were no issues arising from this work.
- We applied overall materiality of £262,000 to the financial statements.
- We have reviewed key judgements made by management and disclosure of accounting policies and found all policies to be in line with Statement of Recommended Practice (SORP) requirements.

Governance

- In 2015/16 there was a new requirement to complete an Accountability Report which includes the Corporate Governance Report. Minor amendments to improve the content and consistency of the Corporate Governance Statement were agreed and have been amended by management.
- The College reported through their Corporate Governance Report that there were adequate governance processes in place during 2015/16. Our audit work supports this assessment.
- We have reviewed the processes and procedures for preparing the Corporate Governance Report 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 2015/16 the College did not donate any funds to the arms length foundation trust 'Scottish Colleges Foundation', but was in receipt of income for approved schemes. We reviewed the arrangements in place to satisfy ourselves with the governance arrangements and independence of any transactions the College has with the Trust. We are satisfied that the Trust is independent from Dumfries and Galloway College.
- Risk Management policies were in place in 2015/16 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'. Arrangements were deemed reasonable and appropriate.
- The College reported no incidents of fraud during 2015/16.

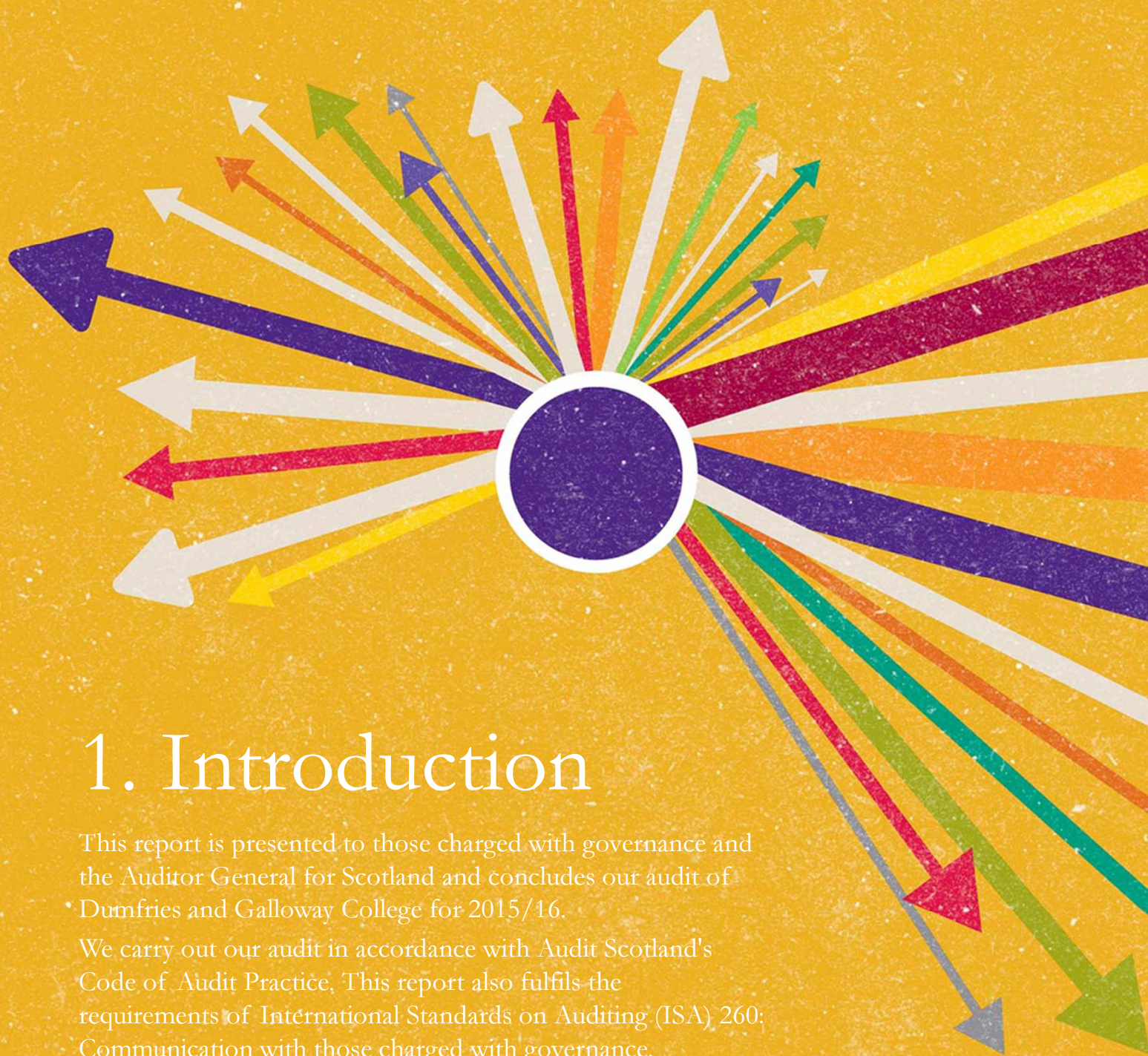
Performance

- In 2015/16 there was a new requirement for a Performance Report and only minor amendments to improve content and consistency were noted, and have been amended by management.
- The 'Vision 2020' sets out the strategic themes, priorities and objectives for the College. This is underpinned by the strategic outcomes in the SFC Agreement 2014/15 to 2016/17 which is updated annually.
- The College reported a deficit position of £833,000 in the 2015/16 financial statements. £380,000 of the deficit is due to 'technical' accounting requirements regarding the use of depreciation funding and £464,000 for the 'technical' pensions accounting required.
- The balance sheet has net assets of £4,229,000, a decrease of £2,658,000 from the 2014/15 net assets of £6,887,000. The main reason is the increased pension provision liability of £2,289,000. The calculation of the liability is carried out by the College's actuary.
- In accordance with SFC 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 student credits for the 2015/16 academic year, with 29,871 achieved against a target of 30,371. (98.4%).
- We are required to complete Audit Scotland questionnaires and one on workforce planning was completed in May 2016, with a further data return expected to be issued later in November 2016.

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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 2015/16.

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 we presented to the Audit Committee on 10 May 2016.

The College's responsibilities

It is the responsibility of the College and the Accountable Officer to prepare the financial statements in accordance with the 2015 Statement of Recommended Practice: accounting for further and higher education (the 2015 SORP) and the Accounts Direction issued by the SFC (the Accounts Direction). The Direction also requires compliance with additional disclosures required by the 2015/16 Government financial reporting manual (FReM).

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 year to 31 July 2016;
- maintain proper accounting records which are up to date; and
- 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; and
- public money is safeguarded and properly accounted for.

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 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 including the regularity of transactions. The opinion also covers parts of the Remuneration and Staffing Report and Performance Report. Under the Code we are also required to review and report on the governance arrangements and confirm that the Corporate Governance Report complies with Funding Council requirements.

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.

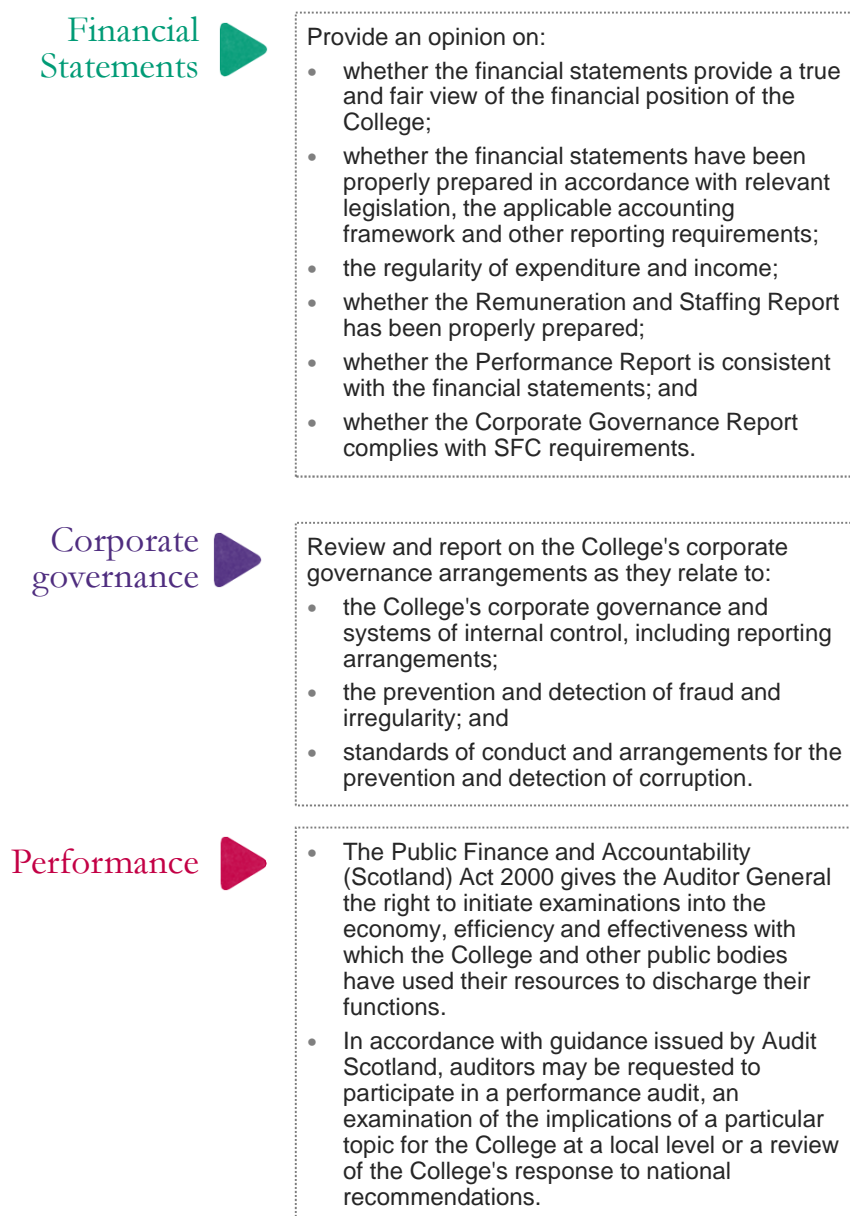


Acknowledgements

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.

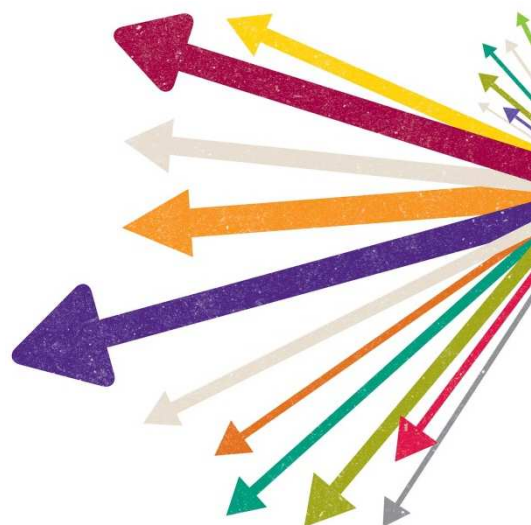
This is the last year of our five year engagement as your external auditor and we pass on our thanks to all officers over the term of our engagement.

Figure 1: Our responsibilities under the Code of Audit Practice



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 10 May 2016.

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

- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation; and
- 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 Performance Report and an Accountability Report were new requirements for 2015/16, and these were available at the start of the audit.

FRS102 was applicable for the 2015/16 year, resulting in the financial statements being restated for 2014/15. We reviewed the basis of the restatement and we identified one minor disclosure issue to enhance the narrative footnote on the impact of the FRS102 restatement.

As part of our work on the financial statements we are required to review the narrative elements of the financial statements (including the Performance Report and the Accountability Report). We review the narrative elements for compliance with required SORP disclosures, for consistency with other areas of the financial statements and our knowledge of the College.

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

A summary of the financial statements disclosure amendments are shown at Appendix E.

Financial Statements Opinion

Our work identified one adjustment to the primary financial statements in 2015/16, to increase cash and income by £1,000, with associated reserves and cash flow statement entries amended also. This was due to the incorrect netting off of some investment income received at the balance sheet date.

The cash flow statement for 2014/15 was amended by £283,000 in the mix of the figures, with the net impact being nil. This was due to the interest element of the pensions IAS19 cost incorrectly being included as a separate item, whereas the full movement should have been reflected in the provisions movement line within the non cash adjustments.

The detail of the primary statements and other adjustments are listed in more detail at Appendix E. We identified other minor adjustments to improve readability and consistency, and they do not warrant further reporting.

Management have made all suggested adjustments in the final version of the financial statements.

Subject to the satisfactory completion of our outstanding testing, we intend to give an unqualified opinion on 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.

Changes in 2015/16

FRS102 conversion

The 2015 SORP replaced the version published in 2007. The new SORP is based on FRS102, the financial reporting standard applicable in the UK and the Republic of Ireland. This resulted in a number of changes to the way financial performance, assets and liabilities are presented in the financial statements.

There are changes to the names of the financial statements:

- the income and expenditure account has been replaced by the statement of comprehensive income, and
- the statement of recognised gains and losses (STRGL) has been replaced by the statement of changes to reserves, and
- the statement of historical cost surpluses and deficits is no longer a requirement.

The College were required to restate their 2014/15 comparators and provide disclosure showing the impact of the restatement. The College dealt with the restatement in a structured manner and working papers were available to document and evidence the process.

Performance Report

The 2015/16 Accounts Direction required a performance report to be produced in accordance with the FReM. A performance report provides information on the college, including its main objectives and strategies and the principal risks that it faces.

The performance report replaced the operating and financial review.

Accountability Report

The 2015/16 Accounts Direction required an accountability report to be produced in accordance with the FReM. The accountability report includes the following:

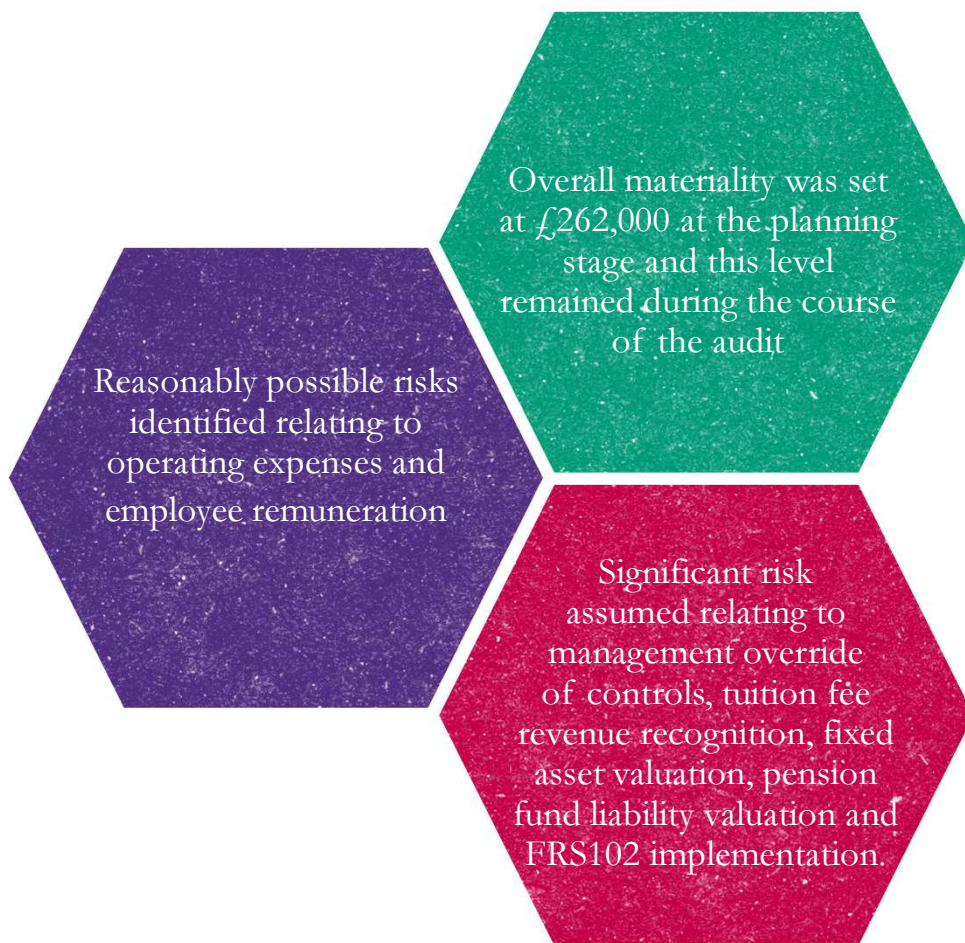
- corporate governance report, and
- remuneration and staffing report.

The positioning of the auditors report is also included within the accountability report.

The corporate governance report replaced the statement of corporate governance and internal control.

The remuneration and staffing report includes additional disclosures in 2015/16, e.g. sickness absence and exit packages. The bandings for the disclosure of higher paid staff has increased from £50,000 to £60,000.

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 five 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 2015 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 2014/15 gross expenditure (adjusted to reflect the change in period length from 16 months to 12 months), which resulted in overall materiality of £262,000.

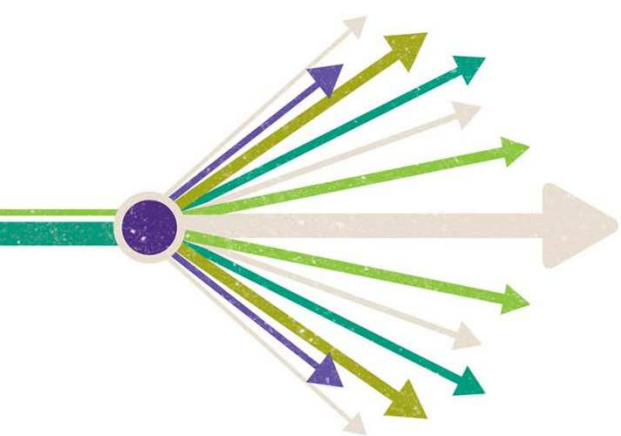
In addition to overall materiality we also establish a level for performance materiality, which as defined by ISA 320 is the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

We set our performance materiality at 75% of materiality which gave a measure of £196,500 for the College.

We reviewed the levels of materiality at the financial statements fieldwork stage to establish whether this would have a significant impact on the materiality to be applied. The levels of materiality remained at the levels from the planning materiality.

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 £13,100.

Items which were considered material by nature (e.g. cash, related parties 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 which are detailed below. In addition we identified three other significant risks relevant to the College audit for 2015/16 which are detailed on the next page.

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 override of controls is present in all entities.</p>	<ul style="list-style-type: none"> Reviewed accounting estimates, judgments and decisions made by management, tested journal entries, and reviewed 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 revenues, but can be rebutted for grant income and other income. The reasons for the elements of income being rebutted 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 revenue income was SFC grant funding totalling £9,909,000, with £422,000 other income. We have substantively tested grant funding to award letters and other income to receipt.</p> <p>We reviewed and tested the income recognition policies of the College and conducted statistical sampling of the tuition fee revenues income balance of £1,719,000 to source documentation and receipt.</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 significant risks

Table 1: Significant Risks identified at the planning stage continued

	Risks identified in our audit plan	Work completed	Assurances and issues arising
3	Valuation of pension fund net liability The College's pension fund net liability represents a significant estimate in the financial statements. An Actuary is used in the calculation of this estimate.	<ul style="list-style-type: none"> Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated; gained an understanding of the basis on which the valuation is carried out; undertook procedures to confirm the reasonableness of the actuarial assumptions made; and reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	Our audit work did not identify any issues relating to the valuation of the pension fund net liability.
4	Valuation of property, plant and equipment (PPE) The College's valuation of fixed assets represents a significant estimate in the financial statements. An external valuer is used in the calculation of this estimate.	The last valuation of fixed assets was undertaken as part of the 2014/15 financial statements. The work undertaken in 2015/16 is as follows: <ul style="list-style-type: none"> reviewed management's processes and assumptions for the calculation of the estimate; and evaluated the assumptions made by management for the assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	Our audit work did not identify any issues relating to the valuation of fixed assets.
5	FRS102 implementation The College were required to produce the financial statements for 2015/16 in line with FRS102 and in accordance with the 2015 SORP, FReM and Accounts Direction. This included a restatement of the 2014/15 position.	<ul style="list-style-type: none"> Reviewed management's arrangements for the implementation of FRS102; carried out work on the restatement of the financial statements including the 31 July 2015 and 1 August 2014 position; and reviewed the associated disclosure notes within the financial statements for the FRS102 implementation. 	Our work highlighted one minor disclosure amendment to provide additional narrative to the FRS102 disclosure note. The process of implementing FRS102 was well evidenced by the College and regular updates to the Finance and General Purposes Committee were made during the year. Reports monitored the progress and impact of the transition and implementation.

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 2015/16 the other operating costs (this does not include employee, capital and financing costs) of providing these services was £3,930,000.</p>	<p>We gained assurance over the risk through:</p> <ul style="list-style-type: none"> • review of the control environment through internal controls walkthrough testing; • review of accounting estimates, judgements and the accruals accounting process, • reconciliation of the creditors system to the general ledger and financial statements and • testing of post year end transactions for potential 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 in 2015/16 are £7,969,000. There are a large number of transactions processed throughout the year. 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"> • review of the control environment through internal controls walkthrough testing; • substantive testing of employee remuneration accruals at the year end; • sample testing to agree staff members to HR system and recalculation of employer costs; and • analytical review of employee remuneration against expectations and investigate significant variances. 	<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, significant judgments and policies

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. Although some areas have been discussed in other parts of this report, this section reviews the accounting policy in place for key estimates and judgments.

Table 3: Accounting estimates and significant judgments and policies

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 of 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 (FRM). • The disclosure in the draft accounts was found to be reasonable and in line with applicable policies. 	●
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"> • Valuation, depreciation and capitalisation policies are considered to be reasonable and in line with the SORP. • We have no issues we wish to highlight. 	●
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. 	●
Remuneration and Staff Report – pension disclosures	<ul style="list-style-type: none"> • Estimation of the cash equivalent transfer values (CETV) within the Remuneration Report is provided for the Scottish Teacher's Superannuation Scheme (STSS) and Local Government Pension Scheme (LGPS) to the College. 	<ul style="list-style-type: none"> • We have reviewed the competence, capability and objectivity of Scottish Public Pensions Agency who provide the STSS CETV disclosures. In addition, Dumfries and Galloway Council provide the CETV LGPS disclosures, and both have been used as management's experts in year. • We review the financial and non financial input provided for the calculation of the CETV disclosures. • We have no issues we wish to highlight. 	●
Other Accounting Policies	<ul style="list-style-type: none"> • We have reviewed the College's accounting 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. • One accounting policy on financial instruments was omitted. This is now included in the final version of the financial statements. 	●

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. Our work focussed testing on the following areas:

- tuition fee revenues;
- operating expenses;
- general ledger journals;
- employee remuneration; and
- 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 testing confirmed that there is a sound system of internal control covering key financial systems operated by the College.

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.

Going Concern

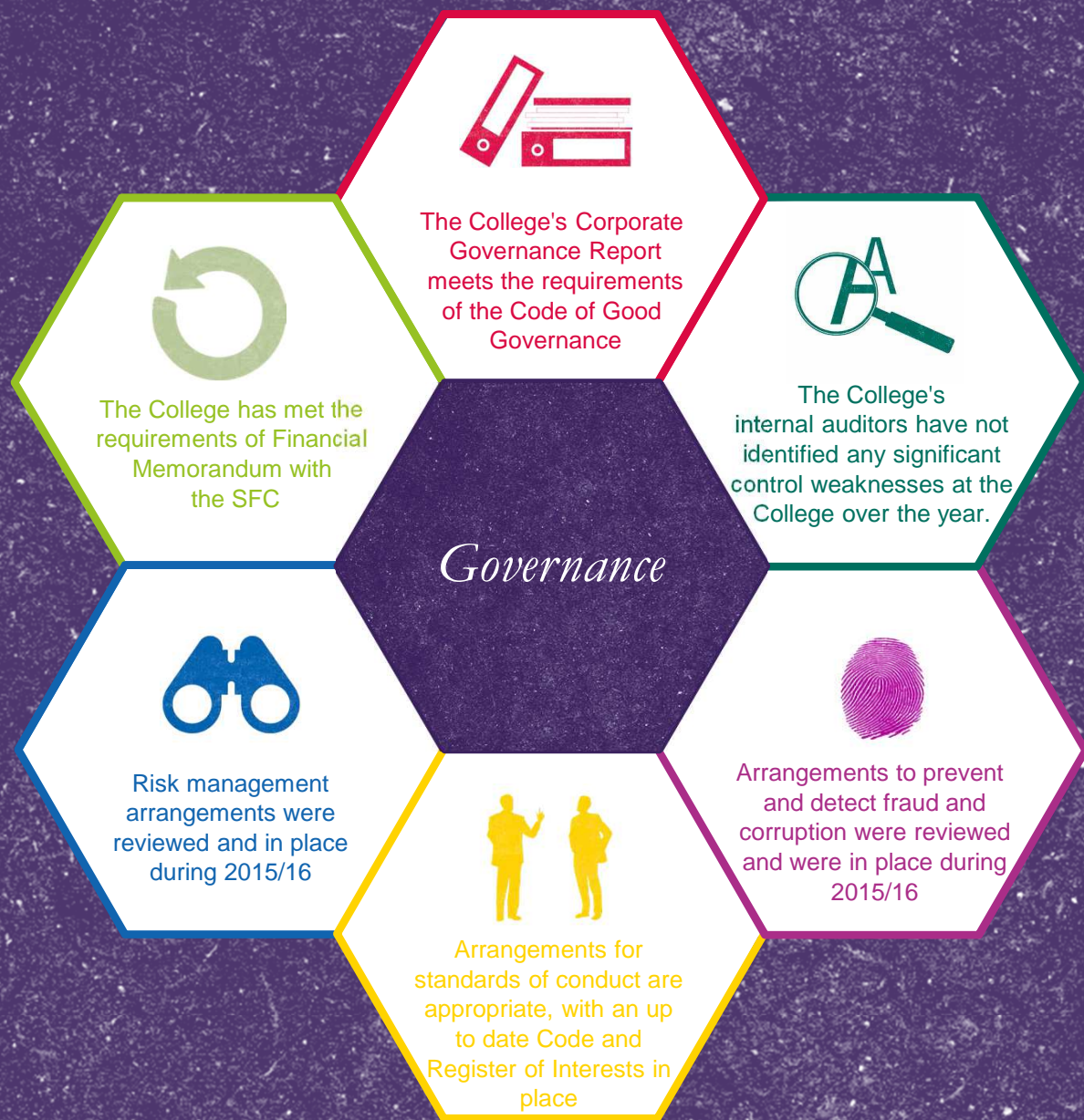
The College has prepared its accounts on a going concern basis. We have considered this and obtained assurance over going concern through:

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

The College reported a deficit position of £833,000 in the 2015/16 financial statements. £380,000 of the deficit is due to technical accounting requirements regarding the use of depreciation and £464,000 for the technical pensions accounting required.

The technical adjustments therefore account for all of the deficit position.

3. Governance



Governance

Corporate Governance Report

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 Corporate Governance Report to ensure compliance with the SFC (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
- Board Development 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, and the arrangements in place are working effectively.

Risk management

The College's Corporate Governance Statement 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 2015/16 and were deemed to be reasonable.

Key areas of risk that are on the College's corporate risk register are disclosed in the Performance Report cover the following themes:

- National pay bargaining;
- public sector funding cuts;
- college re-classification;
- ability to achieve activity targets; and
- Crichton campus partners review of property and provision in Dumfries.

The risk register includes possible mitigation against each risk as part of the risk management reporting processes.

Internal Audit

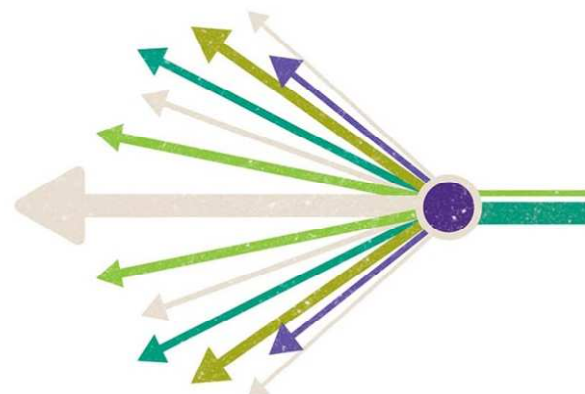
The College's internal audit function is provided by RSM, an external firm of accountants. Internal audit provide an annual opinion to the Audit Committee on the assurance framework. In 2015/16 they issued the following opinion:

"For the 12 months ended 31 July 2016, the College has an adequate and effective framework for risk management, governance and internal control". However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective".

The internal audit reports throughout the year highlight an adequate level of compliance. From all of the Internal Audit work carried out six of the recommendations made was scored as 'high'. All reports by Internal Audit in 2015/16 were either substantial or reasonable assurance. Action has been taken by management to implement the recommendations.

In 2015/16, the programme of work covered:

- Procurement;
- Human Resources effectiveness;
- Budgetary Control;
- Strategic and Financial Planning;
- Student Support Funding and Education Maintenance Allowance;
- Student Activity Data;
- VfM – APUC Assessment; and
- Follow up of previous Internal Audit recommendations.



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 2015/16 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 2015/16 period.

Arrangements for maintaining Standards of Conduct and detection of corruption

In line with the Ethical Standards in Public Life (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; and
- transfer of colleges cash-backed reserves and on-going surpluses to the above foundations.

The College elected to donate 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 2015/16 the College did not donate any reserves to the ALF, but received £286,000 in funding for approved schemes.

We reviewed the arrangements in place to satisfy ourselves with the governance arrangements and independence of any transactions the College makes with the ALF..

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 SFC 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; and
- to secure, well managed and financially and environmentally sustainable colleges.

As part of this plan the College has identified key tasks for 2015/16 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.

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 as part of the Performance Report. 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 98.4% of its credits for student activity for the 2015/16 academic year, with a delivery of 29,871 credits against a target of 30,371 credits.

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 2015/2016 when compared to 2014/15. The targets are reviewed regularly and they are challenging.

Running Cost Expenditure

The financial period for the 2015/2016 accounts is twelve months, with the comparators for 2014/2015 period for a sixteen month period.

During 2015/16, the College spent £13,289,000 on running costs, with £7,969,000 of this relating to staff costs.

Like most public sector bodies the College has been working to match expenditure to income levels. The College stayed within their resource cash limit for 2015/16.

The College reported a deficit position of £833,000 in the 2015/16 financial statements. £380,000 of the deficit is due to 'technical' accounting requirements regarding the use of depreciation and £464,000 for the 'technical' pensions accounting required.

The most significant element of running costs is staff costs which account for 60% of running costs. This is a key performance indicator that is closely monitored.

Financial Position

The balance sheet has net assets of £4,229,000, a decrease of £2,658,000 from the 2014/15 net assets of £6,887,000. The main reason is the increased pension provision liability of £2,289,000.

Table 4: Balance Sheet

	Year ended 31 July 2016 (£m)	Year ended 31 July 2015 (£m)
Non-current assets	36.756	37.953
Current assets	2.458	2.460
Non-current liabilities	(23.710)	(24.880)
Provisions	(8.291)	(6.015)
Current liabilities	(2.984)	(2.631)
Total net assets	4.229	6.887

Scotland's Colleges 2016

The Auditor General published a report on the college sector in August 2016. Key messages from the report were:

- The college sector has continued to exceed activity targets but colleges are still adjusting to substantial changes in how they operate;
- the overall financial health sector is relatively stable but colleges do not have long-term financial plans which would help them address further financial pressures; and
- overall student numbers have decreased by 41 per cent over the last eight years, but under 25 year olds in full time education at college increased by 14 per cent over that time.

Recommendations to Colleges in the report were:

- to develop long-term financial strategies underpinned by medium-term financial plans that link to workforce plans;
- to implement a more systematic approach to workforce planning to ensure the appropriate resources and skills to deliver strategic goals; and
- make agendas, supporting papers and minutes for board and committee meetings publicly available with appropriate timeframes.

The College has reviewed the content of the Report as part of the September 2016 Audit Committee meeting.

Audit Scotland data returns

We are required to complete data returns, that are issued by Audit Scotland during the year. In May 2016 a return on workforce planning informed part of the 2016 Scotland's Colleges report.

A further data return is expected later in November 2016. This work will be agreed with management when it is available. It is expected that it will be required to be submit to Audit Scotland at the same time as the audited financial statements.

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 the fees for other services.

Fees

	Per Audit plan £	Actual fees £
College Audit	14,500	15,450
Total audit fees	14,500	15,450

We confirm there are no changes from the fee agreed at the planning stage with the College at £15,450, but note the transposition error in the Audit Plan presented to the Audit Committee.

Fees for other services

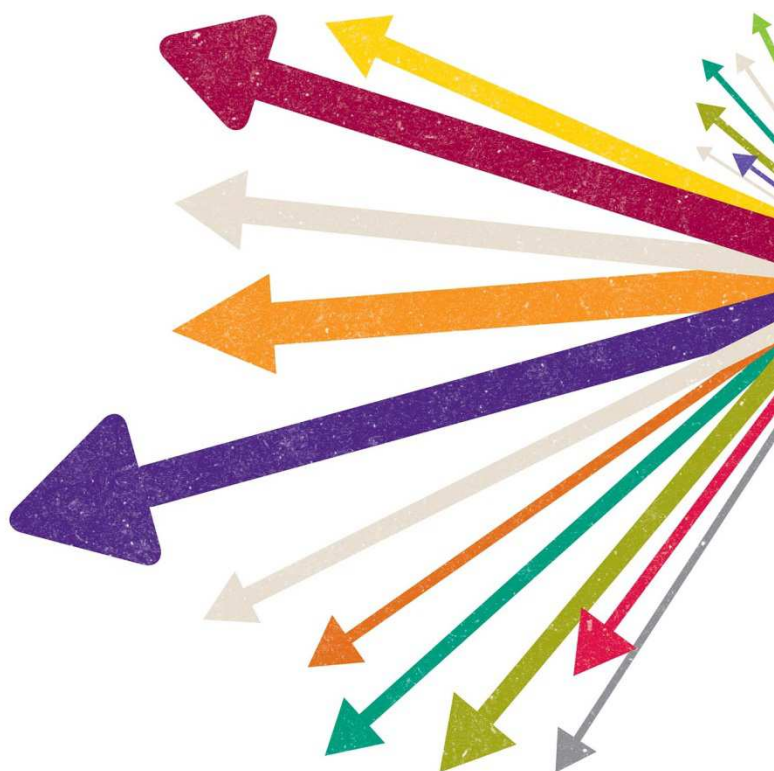
Service	Fees £
FRS102 – An overview of key changes	4,000

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.



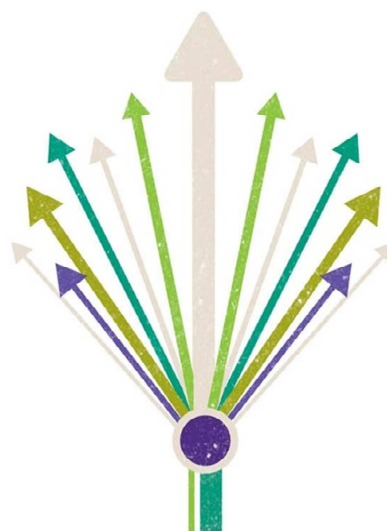
Appendix B



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. Additional disclosure was added to confirm the independence of the ALF. 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; and 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. Any disclosure amendments are noted in Appendix E.
3 Matters in relation to fraud	<ul style="list-style-type: none"> Management indicated there were no identified fraud issues during 2015/2016. 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 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 year ended 31 July 2016 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 Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, Statement of Cash Flows, Statement of Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Financial Reporting Standard (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 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.

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 2016 and of its deficit for the year 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.

Opinion on other prescribed matters

In our opinion:

- the part of the Remuneration and Staffing 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; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 and the part of the Remuneration and Staffing Report to be audited 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 Corporate Governance Report 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 2016

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 2016

Dear Sirs

Dumfries and Galloway College
Financial Statements for the Year Ended 31 July 2016

This representation letter is provided in connection with the audit of the financial statements of Dumfries and Galloway College for the year ended 31 July 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP') including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 audit engagement 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 UK GAAP; in particular the financial statements give a true and fair view in accordance therewith and comply with the Statement of Recommended Practice - Accounting for Further and Higher Education ('SORP') as issued in March 2014 and any subsequent amendments; and applicable law, and for making accurate representations to you.

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 confirm that there are no instances of material irregularity, impropriety or non-compliance with Scottish Funding Council terms and conditions of funding that should be notified to you.

The College has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

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

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

On the basis of the process established by the Board of Management and having made appropriate enquiries, the Board of Management is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business and in accordance with FRS 102 Section 28 Employee Benefits.

Draft Letter of Representation continued

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

All events subsequent to the date of the financial statements and for which UK GAAP and the SORP and any subsequent amendments or variations to this statement require adjustment or disclosure have been adjusted or disclosed.

Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of UK GAAP.

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

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 or error.

We confirm that we have provided to you all information relating to our contractual arrangements with Scottish Funding Council and that we currently know of nothing which could have an impact upon these arrangements and as far as we are aware.

We have disclosed to you our knowledge of 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 our knowledge of any 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 have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing financial statements.

We confirm the arms-length trust foundation Scottish Colleges Foundation 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 Board of Management of Dumfries and Galloway College

Appendix E



Misclassifications and disclosure changes

The tables below separately provides details of misclassifications and disclosure changes identified during the audit which have all 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	Description
1	Misclassification (primary statements)	1,000			
		1,946,000 (193,000)	1,947,000 (192,000)	<u>Balance Sheet</u> Cash and Cash Equivalents Income and Expenditure Reserve	Cash is a sensitive balance so an adjustment of £1,000 is reported to you. Investment income received at the balance sheet date had not been recorded correctly in the balance sheet as it had been netted off, rather than being included within the balance.
		10,000 (834,000)	11,000 (833,000)	<u>Statement of Comprehensive Income (SoCI)</u> Investment Income Deficit in the year	
2	Misclassification (primary statements)	283,000			
		363,000 46,000 237,000	646,000 0 0	<u>Cashflow statement 2014/15</u> Movement in pension provision Movement in other provisions Interest payable	The cashflow statement for 2014/15 incorrectly included the movement in the pension provision split into separate categories. The net impact is nil.
3	Misclassification	29,012,000			
		32,832,000 3,820,000	3,820,000 32,832,000	<u>Note 12 – Fixed Assets – Land and Buildings</u> Inherited Financed by Capital Grant	A transposition error was noted in the financed by capital grant and inherited disclosures for land and buildings. The net impact is nil.
4	Misclassification	300,000	337,000	37,000	
				Note 12 – Fixed Assets – Fixtures, Fittings and Equipment financed by capital grant	An error was made to add an additional '3' into the financed by capital grant disclosure. The error did not impact upon the balance sheet as the net book value for the asset was already correctly disclosed in the note.
5	Misclassification	Various	Various	various	
				Remuneration and Staffing Report – 2014/15 senior officer salary entitlements	All of the 2014/15 comparator figures were incorrectly casted as the total had included an incorrect formula in the spreadsheet.
6	Misclassification	17,000	432,000	449,000	
				Remuneration and Staffing Report – CETV values	The CETV disclosure for one officer was updated due to audit queries made and updated information was then received by the College.

Misclassifications and disclosure changes continued

	Adjustment type	Value of change £	Draft financial statements £	Audited financial statements £	Account balance	Description
7	Disclosure	n/a	n/a	n/a	Statement of Comprehensive Income	A narrative footnote was added to the base of the SoCI to disclose the reason for the deficit due to required technical accounting for the use of depreciation cash and for IAS19 pensions accounting.
8	Disclosure	n/a	n/a	n/a	Note 27 – Transition to FRS102	A narrative footnote was added to explain the impact of the transition to FRS102 to supplement the numeric disclosures already made.
9	Disclosure	n/a	n/a	n/a	Note 1.10 – Accounting policies - Financial Instruments	An accounting policy for financial instruments was omitted.



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Audit Committee

Financial Statements for the year ended 31 July 2016

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide an overview of the Annual Report and Financial Statements for 2016.
- 1.2 A copy of the Financial Statements for the period is attached.

2. CHANGES TO REPORTING REQUIREMENTS

- 2.1 All Scottish colleges are preparing their July 2016 financial statements in accordance with Financial Reporting Standard (FRS) 102 and the revised Statement of Recommended Practice: Accounting for Higher and Further Education 2015 (2015 SORP) for the first time.
- 2.2 The College accounting policy for the treatment of capital grants has been revised following the adoption of the 2015 SORP. Government capital grants will continue to be recognised as income on a systematic basis over the expected useful life of the asset, but non-government capital grants will now be recognised as income as soon as the performance-related conditions of the grant have been met.
- 2.3 The balance of deferred government grants to be released in future years has been included in the College balance sheet as a creditor, and has been split between current and long-term creditors.
- 2.4 The Accounting Policies on pages 31 to 35 of the draft financial statements set out the basis of preparation of the accounts, including adoption of the 2015 SORP, recognition of income and capital grants in accordance with the requirements of FRS 102, and transition to the 2015 SORP.
- 2.5 The Statement of Comprehensive Income has replaced the Income and Expenditure Account in the new format. The Statement of Comprehensive Income is a single statement which includes all items of income and expenditure recognised in the period including unrealised surpluses or deficits which were previously included in the Statement of Total Recognised Gains and Losses.
- 2.6 The financial statements for 2015-16 must also comply with the Government Financial Reporting Manual (FReM) which is issued by HM Treasury, which requires further information to be included in addition to the SORP disclosures.

Audit Committee

3. FINANCIAL YEAR END

- 3.1 The financial statements have been prepared up to the financial year-end of 31 July 2016. As a result, the report includes results which cover the twelve month period August 2015 to July 2016.
- 3.2 The comparative figures are for the sixteen month period April 2014 to July 2015, and have been re-stated in accordance with FRS 102 and the 2015 SORP.

4. AUDIT REPORT

- 4.1 The wording of the audit report is set out on pages 25 and 26, in accordance with the 'Annual Report to the Board of Management and the Auditor General for Scotland 2015/16' which has been issued by Grant Thornton.
- 4.2 Grant Thornton have advised that they have now received all of the information they require in order to provide a standard unqualified audit report on these financial statements.

5. PERFORMANCE REPORT

- 5.1 The FReM requires the College to include a Performance Report in the annual financial statements, which replaces the Operating and Financial Review. The Performance Report is set out on pages 3 to 24 of the financial statements.
- 5.2 The Performance Overview includes a statement from the Principal providing her perspective on the College's performance over the period, a summary of the purposes and activities of the College, and key issues which could impact on the College delivering its objectives.
- 5.3 The Performance Analysis provides more details on how the College measures performance, and an analysis of the performance in 2015-16 compared to 2014-15, including outcomes for student numbers and student achievements, and financial performance indicators.

6. ACCOUNTABILITY REPORT

- 6.1 The Accountability Report covers Corporate Governance, and Remuneration and Staff.
- 6.2 The Corporate Governance report explains the College's governance structure and how this supports the achievement of objectives, which is similar to the Corporate Governance statements in previous financial statements.
- 6.3 The Corporate Governance section includes the Remuneration and Staff report, which is similar to the new disclosures in 2015 including pension information for senior executives, and also remuneration policy, and further breakdown of staff costs.

Audit Committee

7. RESULTS FOR THE YEAR

- 7.1 The Statement of Comprehensive Income includes operating income and expenditure as well as unrealised gains and losses including pension scheme adjustments and revaluation changes. The Statement of Comprehensive Income shows an operating deficit of £833,000.
- 7.2 The operating results for the year includes additional planned expenditure from depreciation cash of £380,000 and adjustments for the 31 July 2016 pension valuation amounted to £464,000.
- 7.3 The underlying operating results for the year, excluding the adjustments above, is an operating surplus of £11,000.
- 7.4 Income for the year continues to include release of capital grants from SFC and ERDF. Grants received from the Scottish Colleges Foundation, for both capital and revenue, are now shown in full in income rather than the capital element deferred and released in line with depreciation charges. Grants of £286,000 were received during the current year for curriculum developments, and £1,492,000 was received in the period to 31 July 2015 for hospitality developments.

8. BALANCE SHEET AT 31 JULY 2016

- 8.1 The Balance Sheets at 31 July 2016 and 31 July 2015 show a net current liability position due to the change in disclosure of deferred government capital grants and repayment of Lennartz balances. Deferred government capital grant balances include current creditors of £758,000 and long term creditor balances of £23,377,000.
- 8.2 Lennartz liabilities decreased during the year and the liability for the Local Government Pension Scheme has increased by £2,289,000 as summarised at Note 19.
- 8.3 Total net assets and reserves in the new format exclude deferred capital grant balances. The impact of the transition to FRS 102 on the opening balance sheet is set out in note 27, which highlights the increase in liabilities and reduction in reserves due to the treatment of deferred capital grants.
- 8.4 The actuarial loss on the pension scheme of £1,825,000 charged to the Income and expenditure reserve has resulted in a net debit balance as at 31 July 2016.

9. RECOMMENDATION

Members are asked to recommend for Board approval the financial statements for the year ended 31 July 2016.

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The financial statements were approved and authorised for issue on 6 December 2016.

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

Performance Report**Performance Overview****Principal's Statement on Performance**

Dumfries and Galloway College aspires to be an 'outstanding college', and aims to deliver the highest quality learning for our students, to make a positive contribution to the local and national priorities, and to utilise the expertise of our staff to deliver continuous improvements. Improving attainment will be a key priority, particularly in curriculum areas with low performance indicators.

In August 2015 the College launched its five-year strategic plan, Vision 2020, setting out its vision and aspirations, and good progress has been made towards achieving the objectives during the academic year 2015-16.

The College achieved 98% of its target student numbers during 2015-16, with 29,871 credits achieved against a target of 30,371. Total numbers for student enrolments increased by 13% from last year, with full-time student numbers maintained at 1,600 and part-time numbers increased from 4,086 in 2014-15 to 4,874 in 2015-16. The College has also managed to maintain the level of student achievements from 2014-15, with 64% overall for full-time students successfully completing their programme of study in 2015-16.

In February 2016, the College was reviewed by Education Scotland, who judged the College has in place effective arrangements to maintain and enhance the quality of its provision and outcomes for learners and other stakeholders.

Strategically, the College is increasingly being recognised as a key partner in economic development and this is evidenced by the Principal chairing the Local Economic Partnership, Chair of the Crichton Campus Joint Academic Strategy Group Regional Chair being a member of Strategic Partnership Board and Developing Young Workforce Regional Group. The College is also fully involved in the development of the Dumfries Learning Town.

The College's curriculum planning process was identified as Best Practice in terms of meeting regional and national needs in the recent Education Scotland Aspect Review, and the curriculum continues to be shaped to support and develop e-learning and blended learning approaches. Hospitality and Catering training facilities have been developed on the Dumfries campus which enabled the College to offer Hospitality and Professional Cookery programmes during 2015-16, which is aligned to one of the growth sectors highlighted in the South of Scotland Regional Skills Assessment 2012-2022. 'Project Search' was delivered with local partners, which was a programme set-up to assist anyone with additional needs find a route to employment, and the College Student Association was further strengthened during 2015-16 with the appointment of a full-time Student Association President.

Partnership and collaboration are at the heart of what we do – with our learners, Dumfries and Galloway Council, Schools across the region, other stakeholders and employers. An Employer Engagement Strategy was developed and introduced in 2015-16. Employer engagement continues to be strengthened across the College with Faculty Teams developing a range of Employer Advisory Partnerships. This closer engagement and partnership working is resulting in focussed, employer-led programmes such as: Reablement training for up to two thousand staff in the Health Service sector; bespoke training programmes for Dumfries and Galloway Housing Partnership, Morgan Sindall and Laing O'Rourke. The College Energy Centre continues to work with key local partners for up skilling in the renewable sector. Numerous employer events were held across the college during the academic year, and these are resulting in increased work placement opportunities and, in some cases, direct recruitment for learners.

The College is taking a key role in supporting the establishment of a Developing Young Workforce Dumfries and Galloway group. The Developing Young Workforce initiative allows employers to play a key role in driving the future agenda for Dumfries and Galloway. The programme will provide a much more universal and structured offer for learners as a whole, which in turn will also help our businesses. The College will continue to strengthen links with schools to develop vocational pathways that offer alternative but meaningful routes to employment, with clear progression opportunities linked where possible directly to industry and employers

Performance Report (continued)**Purpose and Activities of Dumfries and Galloway College**

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.

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 1,600 full-time and 4,800 part-time learners through its campus locations in Dumfries and 75 miles away in Stranraer.

Dumfries and Galloway College is located in the beautiful South West of Scotland. It is 77 miles from Glasgow and 79 miles from Edinburgh to the town of Dumfries, where the College's main campus is located. In particular, the Crichton Campus brings the choice of university learning to a region that in the past people have had to leave to attend university. A smaller campus is located in Stranraer in the west of the region, 75 miles from Dumfries and offers a range of full and part-time programmes.

Using the South of Scotland Regional Skills Assessment, provided by Skills Development Scotland, we are ensuring our curriculum aligns to local and national economic needs. We continue to invest in our facilities with refurbished state-of-the-art beauty salons at our Dumfries Campus in Summer 2016. Subject to funding, further investment is planned – particularly in the areas of Engineering at the Stranraer Campus. We have a medium-term ambition to become a Science, Technology, Engineering and Mathematics (STEM) centre are currently exploring development of skills academies with universities. We continue to explore opportunities to develop new curriculum areas, especially in the Food and Drink sector which has been identified as a key sector within Dumfries and Galloway. As well as seeking to create learning opportunities through to degree level through collaboration with University partners, we are currently in discussion with University of the West of Scotland to deliver a degree in the Creative Industries Sector. We signed a Memorandum of Understanding with Edinburgh Napier in May 2016.

The Scottish Government's response to the 39 recommendations in the final report of the Commission on Developing Scotland's Young Workforce will influence the allocation of government resources related to education and training. This initiative has enabled the College to strengthen links with schools and we will continue to work with them to develop vocational pathways that offer alternative but meaningful routes to employment, with clear progression opportunities linked where possible directly to industry and employers.

Our Strategic Plan sits alongside the College's Regional Outcome Agreement which sets out how we will meet the Scottish Government's expectations and deliver value for money for the public investment we receive.

Over the next 5 years we will support the Scottish Government's key pledges on growing Scotland's economy and tackling social injustice by ensuring we have the highest quality curriculum offering that delivers skills, education and training to meet local and national needs but one that is also inclusive and enables individuals to achieve their maximum potential.

Performance Report (continued)**Strategic Outcomes**

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;

Key issues and risks affecting Dumfries and Galloway College

The College has an established Risk Management Policy and Risk Assessment Policy, which outlines the approach to risk management and defines the key principles, processes and responsibilities for the management of risk across the College as well as providing a systematic way of identifying, monitoring and reporting risks to ensure the College is able to meet its objectives.

The Executive Management Team member responsible for planning maintains the College Risk Register, which is updated and considered regularly by the Executive Management Team and considered by the Audit Committee at each scheduled meeting.

The following risks from the College Risk Register have been identified as key risks:

- **National Pay Bargaining.** The impact of National Pay Bargaining on the College finances and staffing remains uncertain. The threat of future industrial action would be detrimental to learners achieving their qualifications as well as staff moral;

- **Public Sector Funding Cuts.** The continued uncertainty over public sector financial allocations beyond 2016-17 and potential funding cuts will have an impact on the curriculum provision and student services. Scenario planning and budgetary review will be undertaken to minimise the impact on learners and staff;

- **College Reclassification.** The impact on reclassification of the Scottish College sector as public bodies on 1 April 2014 for budgeting and financial reporting has reduced the flexibility of the College to manage financial and estates issues, and meet targets in the Outcome Agreement with the Scottish Funding Council. Internal planning and monitoring processes have been changed in order to minimise the impact of reclassification on learners. The College has been grateful to receive grant support from the Scottish Colleges Foundation to fund estates developments to enhance provision for learners.

- **Ability to achieve activity targets.** The Executive Management Team carry out a robust planning process in order to establish a Curriculum Plan each year, and an Operational Plan to support the curriculum. The funding received from the Scottish Funding Council is dependent on the College achieving its activity targets each academic year. A number of procedures have been established in order to achieve the target each year, and early warning strategies are being implemented in order to improve early retention. However, environmental pressures may impact on retention and this will continue to be monitored.

- **Crichton Campus Partners' review of property and provision in Dumfries.** The College has established shared services with the Universities of Glasgow and the West of Scotland including some shared building space and library services as well as articulation agreements for learners. The University of the West of Scotland are currently undertaking a 'Transformational Project' in respect of their services and the College will continue to discuss any potential impact on our shared services and articulation arrangements.

Performance Report (continued)**Performance Summary**

In August 2015 Dumfries and Galloway College launched its five-year strategic plan, Vision 2020, setting out its vision and aspirations, and good progress has been made towards achieving the objectives during the academic year 2015-16.

Student Numbers

During academic year 2015-16, the College delivered 29,871 credits against a target of 30,371 (2014-15 - 42,407 WSUMs). Total numbers for student enrolments increased from 5,705 in 2014-15 to 6,474 in 2015-16, an increase of 13%. Within these overall numbers full-time student numbers were maintained at 1,600 (1,619 in 2014-15). Full-time FE student numbers increased marginally from 1,112 in 2014-15 to 1,120 in 2015-16 but full-time HE student numbers decreased by 5%, from 507 in 2014-15 to 480 in 2015-16. Part-time FE student numbers increased by 19% from 3,861 in 2014-15 to 4,606 in 2015-16.

Student Achievements

The overall numbers of full-time students successfully completing their programme of study in 2015-16 was 64%, which was slightly lower than 66% achieved in 2014-15. The split between full-time Further Education and Higher Education student achievements was FE - 61% and HE 71% (2014-15 - 64% and 71%).

Successful completion for part-time students increased from 70% to 76% for FE students and from 70% to 71% for HE students.

Quality Assurance and Enhancement

In February 2016, the College was reviewed by Education Scotland, who judged the College has in place effective arrangements to maintain and enhance the quality of its provision and outcomes for learners and other stakeholders.

Curriculum Developments

The College's curriculum continues to be shaped to support and develop e-learning, blended learning approaches and online curriculum including Higher National Certificate in Social Care which is fully available online.

The College has developed Hospitality and Catering training facilities on the Dumfries campus which enabled the College to offer Hospitality and Professional Cookery programmes in Dumfries during 2015-16, which is aligned to one of the growth sectors highlighted in the South of Scotland Regional Skills Assessment 2012-2022.

The College, along with local partners, delivered 'Project Search', a programme set-up to assist anyone with additional needs find a route to employment.

The College's curriculum planning process was identified as best practice in terms of meeting regional and national needs in a recent Education Scotland Aspect review.

The College will continue to develop formal articulation routes for its students and recently signed a Memorandum of Agreement with Edinburgh Napier University to explore articulation opportunities – initially in the Engineering area but, potentially, this may expand to include other areas.

SFC provided the College with financial support towards the cost of developing the Student Association, and the College worked towards the Student Association being able to work as equal partners with the College. A full-time Student Association president was appointed in 2015-16, and the President and Vice President (Stranraer) are members of the Board of Management.

Performance Report (continued)**Future Developments**

Dumfries and Galloway College aspires to be an 'outstanding college', and aims to deliver the highest quality learning for our students, to make a positive contribution to the local and national priorities, and to utilise the expertise of our staff to deliver continuous improvements. Improving attainment will be a key priority, particularly in curriculum areas with low performance indicators.

Work will continue to identify opportunities to enhance collaboration with other Crichton campus partners, to identify future curriculum delivery, explore joint student association activities and explore further opportunities for co-location.

The College will continue to embed and develop the Student Association in 2016-17, working with the national Union of Students and ensuring equivalence of Student Association across both the Dumfries and Stranraer campuses.

The College will continue to strengthen links with Business Gateway in order to facilitate and support students who may be considering starting their own business.

Performance Analysis**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, HM Treasury's Consolidated Budget Guidance 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 £286,000 was received during the year to 31 July 2016 for several estates developments (2014-15 - £1,492,000 was received to fund development of a training kitchen and restaurant).

How we measure performance

The College Outcome Agreement with the Scottish Funding Council (SFC) sets out what the College plans to deliver in return for funding. The Outcome Agreement reflects the College's commitment to responding to the educational and skills needs within the Dumfries and Galloway Region. The 2015-16 SFC Outcome Agreement aligned to the Scottish Funding Council's six national priorities:

Efficient regional structures - to deliver an efficient regional structure to meet the needs of the Dumfries and Galloway Region;

High quality & efficient learning – to ensure that learner journeys are as short, efficient and effective as possible and that learners experience the highest quality of learning and teaching and achieve successful outcomes:

Access for people from widest range of backgrounds - to improve access to further and higher education for people from the widest possible range of backgrounds;

Right learning in the right place – to secure coherent provision of further and higher education in Scotland:

A developed workforce - To ensure students are qualified and prepared for work and to improve and adapt the skills of the region's workforce;

Performance Report (continued)

Sustainable institutions - to secure, well managed and financially and environmentally sustainable colleges.

The College Board of Management and Committees regularly measure and monitor progress towards delivery of the targets set out in the outcome agreement through regular reporting of Key Performance Indicators. The College also produces an annual outcome agreement self evaluation report.

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:

- Credit targets (previously measured as WSUMS)
- Enrolments
- Retention (both early and further)
- Student Outcomes
- Income and expenditure

The Learning & Teaching Committee of the Board also monitors academic performance, including retention, progression and outcomes, including sector comparators. In addition the Human Resources Committee of the Board monitors staffing.

Development and performance during the year

The Scottish Funding Council changed the measurement of the volume of student activity funded by grants from Weighted SUMS (WSUMS) to credits during 2015-16. 1 credit is equivalent to 40 hours of learning under the new measurement criteria.

The key performance indicators for 2015-16 and 2014-15 are as follows:

	2015-16	2014-15
Credits achieved	29,871	N/A
WSUMS achieved	N/A	42,407
Credits per FTE	140	N/A
WSUMS per staff FTE	N/A	203
<i>Target Credits</i>	30,371	N/A
<i>Target WSUMS</i>	N/A	42,529
Operating deficit (inclusive of IAS 19 adjustments)	(£833,000)	(£192,000)
Operating deficit - excluding transfer to Foundation	(£833,000)	(£174,000)
Deficit excluding transfer to Foundation as a % of total income	6.69%	0.99%
Deficit excluding transfer to Foundation as a % of total expenditure	6.27%	0.98%
Staff costs as a % of total expenditure excluding transfer to Foundation	60.0%	55.8%
Ratio of current assets to current liabilities	0.82	0.93
Days cash to total expenditure excluding depreciation and transfer to Foundation	59	49
Non SFC income as a % of total expenditure excluding transfer to Foundation	19.0%	26.4%

Education Scotland carries out periodic reviews of Scottish Colleges on behalf of the Scottish Funding Council with the aim of providing assurance on the quality of Scottish Education and promote improvement and innovation to enhance learners' experiences.

Education Scotland carried out an independent review of the quality of provision in Dumfries and Galloway College in February 2016, and reported their findings in April 2016. The report issued by HM Inspectors concludes that 'Dumfries and Galloway College has in place effective arrangements to maintain and enhance the quality of its provision and outcomes for learners and other stakeholders. This judgement means that, in relation to quality assurance and enhancement, the college is led well, has sufficiently robust arrangements to address any identified minor weaknesses, and is likely to continue to improve the quality of its services for learners and other stakeholders'.

Performance Report (continued)

Financial Out-turn for the period

The College is preparing its financial statements in accordance with FRS 102 for the first time and consequently has applied the first time adoption requirements. An explanation of how the transition to the 2015 SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the college is provided in note 27.

The College operating results are for a twelve month accounting period, from 1 August 2015 to 31 July 2016. The results for the period show an operating deficit of £833,000, which includes the additional planned expenditure from depreciation cash budgets of £380,000 as well as a net charge of £464,000 included in the Statement of Comprehensive Income to reflect the pension valuation changes for the Local Government Pension Scheme at 31 July 2016, in accordance with the technical accounting requirements as detailed at Note 19.

The Central Government budgeting rules will require the College to continue to administer its budgets in compliance with the Government Financial Reporting Manual, and aim to meet the Resource Department Expenditure Limits for budget reporting purposes.

The College Balance Sheet at 31 July 2016 shows a decrease in total reserves of £2,658,000 from balances at 31 July 2015, which includes an increase of £2,289,000 to £7,508,000 in the deficit for the Local Government Pension Scheme as detailed at Note 19. College bank balances shows a decrease during the period which reflects a reduction in funds which were retained to meet Lennartz liabilities as disclosed at Notes 15 and 16.

Deficit resulting from use of depreciation cash and pension revaluation under IAS 19

As highlighted previously, the impact of ONS reclassification of the Scottish College sector as central government bodies for budgeting and financial reporting has reduced the flexibility of the College to manage financial and estates issues, and meet targets in the College's Regional Outcome Agreement with the Scottish Funding Council.

Following the Scottish College sector reclassification as central government bodies from 1 April 2014, while the College prepares accounts under the 2015 Statement of Recommended Practice and Financial Reporting Standards FRS 102, it is also required to comply with Central Government budgeting rules. This affects, among other things, the way in which non-cash depreciation charges are treated. For the 2015-16 budget period this has meant that the College received cash for budgeted depreciation costs, and without approval to spend this cash, it would have been effectively frozen. The underlying operating position would therefore have been a small surplus before accounting for this additional spend and the adjustments for the pension valuation for the Local Government Pension Scheme at 31 July 2016 in accordance with the technical accounting requirements of IAS 19, as detailed at Note 19.

The Scottish Funding Council issued guidance to the College on this matter on 30 March 2015 which provided approval for the depreciation cash budget to be used for specific other areas of expenditure. During 2015-16, £380,000 of depreciation cash budget was used to fund pay costs and curriculum developments. In addition, the accounting adjustments to update the LGPS valuation at 31 July 2016 have resulted in a net charge of £464,000 to expenditure. The impact of the above has contributed £844,000 to the reported deficit for the 2015-16 financial period (2014-15 - £896,000). 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.

The impact on operating position is detailed below:

	2015-16 £000	2014-15 £000
Net depreciation spend		
Pay award	96	0
Curriculum developments	284	296
Total net depreciation spend	380	296
Accounting adjustments for IAS 19	464	600
Total additional costs relating to net depreciation spend and accounting adjustments for IAS 19 included within operating results	844	896

Performance Report (continued)**Review of Resource outturn for the year ended 31 March 2016**

Following the reclassification of colleges as public bodies on 1 April 2014, the college has been required to comply with government accounting and budgeting rules on a financial year basis (ie to the end of March). The college is given a revenue resource budget (RDEL) and a capital resource budget (CDEL) and must account for this budget on a financial year basis. The resource budgets and final outturn for the 2015-16 budgeting period are outlined below:

	RDEL	CDEL
	£000	£000
Resource budget for year ended 31 March 2016	13,343	0
Expenditure against resource budget	13,143	0
Net underspend/ (overspend) against budget	200	0

The outturn is better than forecast due to an underspend of student support funding for the period.

In addition, the College received a non-cash budget from the Scottish Government to cover depreciation costs.

Payment Practice Code

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 1.53% (2014/15 - 0.3%). The College did not pay any interest on late payments as defined under the Late Payment of Commercial Debts (Interest) Act 1998.

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.

Environmental Considerations and Sustainability Reporting

Dumfries and Galloway College is committed to improving environmental performance, raising the profile of sustainability education and reducing its impact upon contributing to climate change. The staff, students, campus partners and wider community have the right to expect, that the College as a responsible institution, acts positively to promote behaviour change and reduce the impact upon the environment.

The College has developed a comprehensive 5 year Climate Change Action Plan to achieve reduced emissions. The Climate Change Action Plan 2015-2020 emphasises the College's commitment to reducing carbon dioxide emissions over the short to medium term, and illustrates how savings will be made through efficiencies and improved use of resources in addition to helping meet the wider objectives of the Climate Change (Scotland) Act 2009. The College has set a target to reduce carbon emissions by 20% by 31 December 2019 from the 2014 baseline data measurements. A copy of our Carbon Management Plan 2015-20 which provides detailed information in respect of our works towards facilitating greater sustainability can be accessed using the following web link:

https://www.dumgal.ac.uk/dumgalcontent/uploads/2016/03/Climate_Change_Action_Plan_Dec2015.pdf

The College confirms that it complies with Scottish Government sustainability reporting in line with the requirements of the Climate Change (Scotland) Act 2009.

Performance Report (continued)**Going Concern**

The College is preparing its financial statements in accordance with Financial Reporting Standard (FRS) 102 for the first time and the key impact of the changes relate to capital grants. FRS 102 requires the balance of deferred capital government grants amounting to £24,891,000 at 31 July 2015 require to be accounted for as creditor balances rather than reserves. The balance has been split between current liabilities of £756,000 and long-term liabilities of £24,135,000. The College balance sheet at 31 July 2015 shows net current liabilities of £171,000 as a result of this change in disclosure and a reduction of £24,891,000 in total reserves.

Following the Scottish College sector reclassification as central government bodies from 1 April 2014, while the College prepares accounts under the 2015 Statement of Recommended Practice and Financial Reporting Standards FRS 102, it is also required to comply with Central Government budgeting rules. This affects, among other things, the way in which non-cash depreciation charges are treated. For the 2015-16 budget period this has meant that the College received cash for budgeted depreciation costs, and without approval to spend this cash, it would have been effectively frozen. The underlying operating position would therefore have been a small surplus before accounting for this additional spend and the adjustments for the pension valuation for the Local Government Pension Scheme at 31 July 2016 in accordance with the technical accounting requirements of IAS 19, as detailed at Note 19.

The Scottish Funding Council issued guidance to the College on this matter on 30 March 2015 which provided approval for the depreciation cash budget to be used for specific other areas of expenditure. During 2015-16, £380,000 of depreciation cash budget was used to fund pay costs and curriculum developments. In addition, the accounting adjustments to update the LGPS valuation at 31 July 2016 have resulted in a net charge of £464,000 to expenditure. The impact of the above has contributed £844,000 to the reported deficit for the 2015-16 financial period (2014-15 - £896,000). 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.

The financial statements have been prepared on the going concern basis, which provides that the organisation will continue in operational existence for the foreseeable future. The disclosure of deferred government capital grants as creditors has resulted in the Balance Sheet at 31 July 2016 showing net current liabilities due to the accounting treatment of deferred grants rather than a future cash outflow for the College. In addition, the deficit reported in the Statement of Comprehensive Income includes £380,000 of 'net depreciation cash' expenditure and accounting adjustments for the LGPS pension valuation of £464,000. These technical accounting adjustments are not considered to have an impact on the College's ongoing financial sustainability.

Carol Turnbull

6 December 2016

Principal

Accountability Report**Corporate Governance Report****Board of Management**

The Regional Board for Dumfries and Galloway College is now well established and comprises of the Chair, the Principal, two student members, two staff members and nine non-executive members. The College recognises the important role Board members have in acting as ambassadors for the College as well as providing a governance role.

The College's Regional Board is responsible for bringing independent judgement to bear on issues concerning the College's strategic direction, performance, resources and standards of conduct. In addition the Board is responsible for systems of internal control. The Board reviews its effectiveness on an annual basis through a robust self evaluation process. The members who served on the Board of Management during the year and up to the date of signature of this report are set out on below.

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. Agendas, minutes, papers and reports of all meetings are available on the College website: www.dumgal.ac.uk

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.

Dumfries and Galloway College Board of Management met five times during the 2015-16 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 Board Development Committee (includes appointments), a Remuneration Committee, a Learning and Teaching Committee and Audit Committee. All committees are required to report back to the Board on their activities.

The Chair meets with each member of the Board on an annual basis as part of the Board's process of evaluating the effectiveness of board members. The evaluation of the Board Chair is undertaken by the Vice Chair. The performance of the Board Chair is also evaluated by the Scottish Government, as regional college chairs are appointed by the Scottish Ministers and are personally accountable to them.

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

The Board Secretary 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 and on the College website: www.dumgal.ac.uk

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 Board Secretary, who is responsible for ensuring compliance with all applicable procedures and regulations. The appointment, evaluation and removal of the Board Secretary are matters for the Board of Management as a whole.

Accountability Report (continued)**Corporate Governance Report (continued)**

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

Janet Brennan
Hugh Carr
Emma Curtis (Student member)
Ros Francis
Barry Graham
Scott Hardie (Student member)
John Henderson
Kenny Henry (Support Staff Member)
Delia Holland (Vice Chair)
Brian Johnstone (Regional College Chair)
Pat Kirby
Stuart Martin
Karen McGahan
Carol Turnbull (Principal and Chief Executive)
Ian White (Lecturing Staff Member)

The following individuals were also Board members in the period from August 2015 up to 31 July 2016:

Janice Goldie (resigned December 2015)
Craig McGill (Student Member, term in office finished June 2016)
Julian Weir (Student Member, term in office finished June 2016)

A short biography of each Board member, together with their Register of Interests, can be accessed on our website using the following link: <http://www.dumgal.ac.uk/dumgalportal/index.php?pageid=BOM-profiles>

Jannette Brown acted as Board Secretary throughout the period, with Kay Bird taking over from August 2016.

Executive Management Team

The Board of Management has delegated day to day responsibility for running the College to the Executive Management Team.

The undernoted individuals are the current members of the Executive Management Team:

Carol Turnbull (Principal)
Jannette Brown (Vice Principal Corporate Services and Governance)
Helen Pedley (Director of Organisational Development and Facilities)
Andy Wright (Vice Principal Learning and Skills)

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 at 31 July 2016.

Key Committees:

Human Resources Committee
Members - Janet Brennan, Stuart Martin (Chair), Carol Turnbull and Ian White

Board Development Committee (Previously Selection and Appointments Committee)
Members - Hugh Carr, Delia Holland, Brian Johnstone (Chair), Stuart Martin and John Henderson

Accountability Report (continued)**Corporate Governance Report (continued)**

Remuneration Committee

Members - John Henderson, Delia Holland (Chair), Brian Johnstone and Ian White

Audit Committee

Members - Hugh Carr (Chair), Delia Holland, Pat Kirby and Stuart Martin

Finance and General Purposes Committee

Members - Ros Francis, John Henderson (Chair), Kenny Henry, Karen McGahan and Carol Turnbull

Learning and Teaching Committee

Members - Barry Graham, John Henderson, Kenny Henry, Delia Holland (Chair), Emma Curtis, Carol Turnbull, Scott Hardie and Ian White.

Appointments to the Board of Management

Following regionalisation of Scottish colleges and their designation as public bodies, Regional Chairs are appointed by the Scottish Minister and are subject to the Public Appointments process.

Any new appointments to the Board of Management are a matter for consideration by the Board as a whole. The Board has a Board Development Committee, which is responsible for the selection and appointment of any new member for the Board's consideration. Any appointment is also now subject to approval by the Cabinet Secretary for Education and Lifelong Learning.

Human Resources Committee

The primary purpose of the Human Resources Committee is to ensure that the College is operating within all legal requirements relating to employment law and other legislation affecting employment. The committee also approves the HR strategy and monitors actual performance against KPI's to include staff welfare, staff establishment, turnover, sickness, and absence. The Committee meets once per year.

Board Development Committee

The Board Development Committee was previously the Selection and Appointments Committee. The remit of this committee was revised and strengthened during 2015-16 to ensure compliance with the Code of Good Governance for Scotland's Colleges and the Board Development Framework. The Board Development Committee now has responsibility for advising the Board of Management on matters relating to members of the Board of Management, including Board Member appointment, balance of skills and experience, induction and training, balance in relation to equality as well as Board evaluation and development. The Committee meets at least once per year.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on the remuneration, terms and conditions (and, where appropriate severance payments) of the Principal, members of the Executive Management Team and the Secretary to the Board. The Committee meets at least once per year. Details of the remuneration of senior post-holders for the period ended 31 July 2016 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.

The Audit Committee meets a minimum of four 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.

Accountability Report (continued)**Corporate Governance Report (continued)**

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 is responsible for ensuring compliance with the Financial Memorandum and Financial Regulations. It recommends the annual budget to the Board and monitors actual performance against budget. The Committee also makes recommendations to the Board on matters relating to the development and management of its property and facilities. The Committee meets four times per year.

Learning and Teaching Committee

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. The Committee meets four times per year.

Corporate Strategy

The Board of Management adopted the Code of Good Governance for Scotland's Colleges in January 2015. The Selection and Appointments Committee was strengthened during the year, and is now the Board Development Committee. The remit of the Committee now includes Board Member induction and training as well as Board Evaluation. An annual self-evaluation process has been established which includes a review of performance over the last 12 months, and an assessment of external and internal changes which are likely to impact on the Board in the next 12 months. Areas for development are identified and a Development Plan produced which is monitored throughout the year. Progress against the Development Plan is assessed as part of the following year's performance review.

A Board Strategic Session is included in the Board calendar each year.

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 2016 and up to the date of approval of the annual report and accounts.

Accountability Report (continued)**Corporate Governance Report (continued)*****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 2016 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.

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.

Risk Management and Internal Control***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.

Accountability Report (continued)**Corporate Governance Report (continued)**

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 2016 meeting, the Board of Management carried out the annual assessment for the period ended 31 July 2016 by considering documentation from the Executive Management Team and internal audit, and taking account of events since 31 July 2016.

Estates Strategy

The College is currently developing a five 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 curriculum 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.

Human Resources Strategy

The College has developed a five year human resources strategy to support the College's strategic plan Vision 2020. The strategy aims to achieve:

- an engaged, diverse, and high quality workforce;
- adaptable, flexible and innovative staff, teams and organisation;
- excellent leadership and management;
- a safe and healthy working environment.

Accountability Report (continued)**Corporate Governance Report (continued)****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 September 2014. 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 complies with the sector Board Development and Evaluation Framework.

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.

The Board of Management supports the work being done by the College Sector Good Governance Steering Group.

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 2016.

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 2016.

Following its self evaluation the Board has identified a number of areas for development. Key areas include:

- To keep strategy under review as events change
- To keep stakeholders under review
- To ensure to make use of student members
- To build on local area committee engagement (Dumfries and Galloway Council)
- To harness skills of Board members and own contacts more
- To make staff more aware of Board e.g. presentation to staff
- To Communication would help re clarity of roles such as e.g. student association
- To recruit members from vocational backgrounds
- Board members to undertake Equalities training

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 6 December 2016 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 2015 Statement of Recommended Practice Accounting for further and higher education, the 2015-16 Government Financial Reporting Manual (FReM) 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.

Statement of the Board of Management's Responsibilities (continued)

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 6 December 2016 and signed on its behalf by:

Brian Johnstone
Chairman

Remuneration and Staff 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 is relevant for the financial period ending 31 July 2016.

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 £60,000 or more, this information being disclosed in salary bandings of £5,000 above £60,000. 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, terms and conditions (and, where appropriate severance payments) of the Principal, members of the Executive Management Team and the Secretary to the Board. The Committee meets at least once per year. Details of the remuneration of senior post-holders for the period ended 31 July 2016 are set out in note 8 to the financial statements.

Remuneration including salary entitlements

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

The College's employees receiving more than £60,000 remuneration during the period covered by the financial statements are shown below. This information is disclosed in salary bandings of £5,000 above £60,000 or more.

	12 Month period ended 31 July 2016		16 Month period ended 31 July 2015	
	Number senior post- holders	Number other staff	Number senior post-holders	Number other staff
£60,001 to £65,000	3	0	0	3
£65,001 to £70,000	0	0	0	0
£70,001 to £75,000	0	0	1	0
£75,001 to £80,000	0	0	0	0
£80,001 to £85,000	0	0	2	0
£85,001 to £90,000	0	0	0	0
£90,001 to £95,000	1	0	0	0
£95,001 to £100,000	0	0	0	0
£100,001 to £105,000	0	0	0	0
£105,001 to £110,000	0	0	0	0
£110,001 to £115,000	0	0	0	0
£115,001 to £120,000	0	0	0	0
£120,001 to £125,000	0	0	1	0
	4	0	4	3

During the period, the College made no payments for compensation on early retirement or loss of office (2014-15 - £nil).

Remuneration and Staff Report (continued)

During the period, the College made no non-cash benefits available to staff (2014-15 - none).

Median Remuneration

Based on the 12 month figures above, the banded remuneration of the highest paid official in the organisation during the financial year 2015-16 was £95,000. (2014-15 - £95,000 on a pro-rata 12 month basis). This was 4 times (2014-15 4 times) the median remuneration of the workforce which was £24,000 (2014-15 £24,000).

Salary entitlements

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

Name	12 months ended 31 July 2016			16 months ended 31 July 2015		
	Actual			Actual		
	Salary £'000	Pension benefit £'000	Total £'000	Salary £'000	Pension benefit £'000	Total £'000
B. Johnstone - Actual	20	0	20	30	0	30
C. Turnbull - Actual	95	50	145	125	35	160
J. Brown - Actual	65	25	90	80	35	115
H. Pedley - Actual	65	25	90	75	30	105
S.A. Wright - Actual	65	50	115	85	20	105

Name	Annual Equivalent			Annual Equivalent		
	Annual Equivalent			Annual Equivalent		
	Salary £'000	Pension benefit £'000	Total £'000	Salary £'000	Pension benefit £'000	Total £'000
B. Johnstone - Annual Equivalent	20	0	20	20	0	20
C. Turnbull - Annual Equivalent	95	50	145	95	25	120
J. Brown - Annual Equivalent	65	25	90	65	25	90
H. Pedley - Annual Equivalent	65	25	90	55	25	80
S.A. Wright - Annual equivalent	65	50	115	65	15	80

The salary and pension benefits above are shown in bands of £5,000 in accordance with the 2014/15 Government Financial Reporting Manual. Pension Benefits are calculated as real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual.

Pension benefits for all College 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.

The Pension Benefits noted above include benefits from the Local Government Pension Scheme for three Senior Executives, and the Scottish Teachers Superannuation Scheme for one Senior Executive.

Contribution rates for both pension schemes are set annually for all employees, as set out at note 19.

Remuneration and Staff Report (continued)**Changes to the Local Government Pension Scheme**

Changes were made to the LGPS scheme from 1 April 2015. The pension after that date for members will be calculated on a career average basis, and the pension age will align with the state retirement age.

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

There is no automatic entitlement to a lump sum for LGPS scheme members. 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.

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 state retirement age in the current scheme. Member benefits build up in the new way from April 2015.

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 2016	Accrued lump sum at pension age at 31 July 2016	Real increase in pension 1 August 2015 to 31 July 2016	Real increase in lump sum 1 August 2015 to 31 July 2016	CETV at 31 July 2016	CETV at 31 July 2015	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	2.5	2.5	742	674	68
J. Brown	30	60	2.5	2.5	570	517	53
H. Pedley	25	50	2.5	2.5	390	365	25
S.A. Wright	25	70	2.5	7.5	449	391	58

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.

Remuneration and Staff Report (continued)**Compensation for loss of office**

No employees left under voluntary exit terms during the year.

Staff Report

The Staff Report contains information relating to staff costs and staff numbers.

Staff Costs

Staff costs for the year were as follows:

	Directly employ ed staff £'000	Seconded and agency staff £'000	2015-16 Total £'000	Directly employed staff £'000	Seconded and agency staff £'000	2014-15 Total £'000
Wages and salaries	6,140	46	6,186	7,711	61	7,772
Social security costs	457	0	457	527	0	527
Other pension costs	1,372	0	1,372	1,640	0	1,640
Total	7,969	46	8,015	9,878	61	9,939
Average number of FTE	213	1.5	214.5	209	2	211

The College employed 195 females and 120 males as at 31 July 2016. Of the four College Senior Executives, one is male and three are female.

Sickness Absence

The total number of days lost per full-time equivalent (FTE) to sickness absence during 2015-16 was 6.4 days, which has decreased from 2014-15 which was 7.5 days.

Policies in relation to disabled persons

The College is committed to a policy of equal opportunities for all staff and students, irrespective of their sex, marital status, age, race, ethnic origin, sexual orientation, disability, religion or belief, working pattern, employment status, gender identity, caring responsibility or trade union membership. 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. 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. The College undertakes to develop all staff and positively values the different perspectives and skills each bring to work.

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.

Expenditure on consultancy and payroll arrangements

Consultancy expenditure of £40,000 was incurred in respect of architectural and other specialist services relating to property and IT developments during the year to July 2016.

Exit packages

No Board member or senior manager left under voluntary or compulsory exit schemes in 2015-16 (2014-15 - none)

DRAFT 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 year ended 31 July 2016 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 Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, Statement of Cash Flows, Statement of Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Financial Reporting Standard (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 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

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 2016 and of its deficit for the year 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.

Opinion on other prescribed matters

In our opinion:

- the part of the Remuneration and Staffing 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; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 and the part of the Remuneration and Staffing Report to be audited 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 Corporate Governance Report 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 2016

Statement of Comprehensive Income

		Year ended 31 July	Period ended 31 July (restated)
	Note	2016	2015
		£000	£000
INCOME			
SFC grants	2	9,909	12,906
Tuition fees and education contracts	3	1,719	2,271
Other grant income	4	395	1,760
Other operating income	5	422	569
Endowment and investment income	6	11	16
Total Income		12,456	17,522
EXPENDITURE			
Staff costs excluding exceptional costs	7	7,969	9,878
Fundamental restructuring costs		0	0
Other operating expenses	9	3,930	6,002
Transfer to Arms Length Foundation	9	0	18
Depreciation	12	1,197	1,579
Interest and other finance costs	10	193	237
Total Expenditure		13,289	17,714
(Deficit)/ Surplus before tax		(833)	(192)
Taxation		0	0
(Deficit)/ Surplus for the year		(833)	(192)
Unrealised deficit on revaluation of land and buildings		0	(1,785)
Actuarial (loss) in respect of pension schemes	19	(1,825)	(691)
Total comprehensive income for the year		(2,658)	(2,668)
Represented by:			
Unrestricted comprehensive income for the year		(2,658)	(2,668)

All items of income and expenditure relate to continuing activities.

A significant consequence of reclassification as central government bodies, from 1 April 2014, while the College prepares accounts under the 2015 Statement of Recommended Practice and Financial Reporting Standards FRS 102, it is also required to comply with Central Government budgeting rules. This affects, among other things, the way in which non-cash depreciation charges are treated. For the 2015-16 budget period the College received cash for budgeted depreciation costs, and without approval to spend this cash, moving the College's Statement of Comprehensive Income into a deficit position, it would have been effectively frozen. The underlying operating position would therefore have been a small surplus before accounting for this additional expenditure and the adjustments for the pension valuation for the Local Government Pension Scheme at 31 July 2016 in accordance with the technical accounting requirements of IAS 19, as detailed at Note 19.

The Scottish Funding Council issued guidance to the College on this matter on 30 March 2015 which provided approval for the depreciation cash budget to be used for specific other areas of expenditure. During 2015-16, £380,000 of depreciation cash budget was used to fund pay costs and curriculum developments. In addition, the accounting adjustments to update the LGPS valuation at 31 July 2016 have resulted in a net charge of £464,000 to expenditure. The impact of the above has contributed £844,000 to the reported deficit for the 2015-16 financial period (2014-15 - £896,000). 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.

Statement of Changes in Reserves for the year ended 31 July 2016

	Income and expenditure reserve	Revaluation reserve	Total
	£000	£000	£000
Balance at 1 April 2014	2,941	6,614	9,555
Surplus/ (Deficit) from the income and expenditure statement	(192)	0	(192)
Other comprehensive income	(691)	(1,785)	(2,476)
Transfers between revaluation and income and expenditure reserve	264	(264)	0
Release of restricted capital funds spent in period	0	0	0
	<u>(619)</u>	<u>(2,049)</u>	<u>(2,668)</u>
Balance at 1 August 2015	2,322	4,565	6,887
Surplus/ (Deficit) from the income and expenditure statement	(833)	0	(833)
Other comprehensive income	(1,825)	0	(1,825)
Transfers between revaluation and income and expenditure reserve	144	(144)	0
Release of restricted capital funds spent in year	0	0	0
	<u>(2,514)</u>	<u>(144)</u>	<u>(2,658)</u>
Total comprehensive income for the year	(2,514)	(144)	(2,658)
Balance at 31 July 2016	<u>(192)</u>	<u>4,421</u>	<u>4,229</u>

Balance Sheet as at 31 July 2016

		Year ended 31 July 2016	Period ended 31 July (restated) 2015
	Note	£000	£000
Non-current assets			
Fixed assets	12	<u>36,756</u>	<u>37,953</u>
Current Assets			
Trade and other receivables	13	511	297
Cash at cash equivalents	14	<u>1,947</u>	<u>2,163</u>
Total current assets		2,458	2,460
Less: Creditors - amounts falling due within one year	15	<u>(2,984)</u>	<u>(2,631)</u>
Net Current Assets/ (Liabilities)		<u>(526)</u>	<u>(171)</u>
Total Assets less Current Liabilities		36,230	37,782
Less: Creditors - amounts falling due after more than one year	16	(23,710)	(24,880)
Provisions			
Pension provisions	17	(8,291)	(6,006)
Other provisions		<u>0</u>	<u>(9)</u>
Total net assets		<u><u>4,229</u></u>	<u><u>6,887</u></u>
Unrestricted Reserves			
Income and expenditure reserve - unrestricted		(192)	2,322
Revaluation reserve		4,421	4,565
Total reserves		<u><u>4,229</u></u>	<u><u>6,887</u></u>

The financial statements on pages 27 to 51 were approved by the Board of Management on 6 December 2016 and were signed on its behalf by:

Brian Johnstone
Chairman

Carol Turnbull
Principal

Statement of Cash Flows for the year ended 31 July 2016

	Year ended 31 July	ended 31 July (restated)
Note	2016	2015
	£000	£000
Cash flow from operating activities		
(Deficit)/ Surplus for the period	(833)	(192)
Adjustment for non-cash items		
Depreciation	1,197	1,579
Decrease/ (increase) in debtors	(214)	704
(Decrease)/ increase in creditors	(817)	(1,904)
Increase/ (decrease) in pension provision	460	646
Increase/ (decrease) in other provisions	(9)	0
Adjustment for investing or financing activities		
Investment income	0	0
Interest payable	0	0
(Loss)/ Profit on sale of fixed assets	0	(16)
Net cash (Outflow)/ Inflow from operating activities	<u>(216)</u>	<u>817</u>
Cash flows from investing activities		
Proceeds from sales of fixed assets	0	18
Investment income	0	0
Payments to acquire fixed assets	0	(799)
	<u>0</u>	<u>(781)</u>
Cash flows from financing activities		
Interest paid	0	0
Repayments of amounts borrowed	0	0
	<u>0</u>	<u>0</u>
(Decrease)/ increase in cash and cash equivalents in the period	<u>(216)</u>	<u>36</u>
Cash and cash equivalents at beginning of the period	2,163	2,127
Cash and cash equivalents at end of the period	1,947	2,163

Notes to the Financial Statements**1. Statement of Accounting Policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

1.1 Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Accounting Practice (SORP) 2015: 'Accounting in Further and Higher Education'; the Financial Reporting Standards FRS 102 and the 2015-16 Government Financial Reporting Model (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.

The College is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102.

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 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 material to the financial statements are set out below.

1.2 Recognition of income

Income from the sale of goods or services is credited to the Statement of Comprehensive Income and Expenditure when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Fee income is stated gross of any expenditure which is not a discount and credited to the Statement of Comprehensive Income and Expenditure over the period in which students are studying. Where the amount of the tuition fee is reduced, by a discount for prompt payment, income receivable is shown net of the discount.

All income from short-term deposits and investment income is credited to the statement of income and expenditure on a receivable basis.

The College acts as paying agent on behalf of two funding bodies - the Scottish Funding Council and the Student Awards Agency for Scotland - in the collection and payment of certain Student Support Funds. Where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction, those funds are excluded from the income and expenditure of the College.

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, those funds are shown as College income and expenditure.

Grant funding

Government revenue grants including the recurrent grants from the Scottish Funding Council (SFC) are recognised in income over the periods in which the College recognises the related costs for which the grant is intended to compensate. Where part of a government grant is deferred it is recognised as deferred income within creditors and allocated between creditors due within one year and due after more than one year as appropriate.

Grants from non government sources are recognised in income when the College is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Notes to the Financial Statements (continued)**1. Statement of Accounting Policies (continued)****1.2 Recognition of income (continued)*****Donations and endowments***

Non exchange transactions without performance related conditions are donations and endowments. Donations and endowments with donor imposed restrictions are recognised in income when the College is entitled to the funds. Income is retained within the restricted reserve until such time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer.

Donations with no restrictions are recognised in income when the College is entitled to the funds.

Investment income and appreciation of endowments is recorded in income in the year in which it arises and as either restricted or unrestricted income according to the terms of the restriction applied to the individual endowment fund.

Four main types of donations and endowments are identified within reserves:

1. Restricted donations - the donor has specified that the donation must be used for a particular objective.
2. Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the College.
3. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the College has the power to use the capital.
4. Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

Capital grants

Government capital grants are recognised in income over the expected useful life of the asset. Other capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met.

1.3 Fixed assets

In line with FReM all tangible assets must be carried at fair value. Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

Land and buildings

Land and buildings are measured using the revaluation model. Under the revaluation model, assets are revalued to fair value. Where appropriate Depreciated Replacement cost has been used as a measure of fair value for land and buildings otherwise Market Value will be used. The College has a policy of ensuring a full revaluation takes place at least every 5 years such that the fair value is not materially different to the current value. Depreciation and impairment losses are subsequently charged on the revalued amount.

Finance costs, which are directly attributable to the construction of land and buildings, are not capitalised as part of the cost of those assets.

Costs incurred in relation to land and buildings after initial purchase or construction, and prior to valuation, are capitalised to the extent that they increase the expected future benefits to the College.

If a building is brought into use mid-way through a year the depreciation charge in the first year will be pro-rated to reflect the number of months that the asset was in use.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of any fixed asset may not be recoverable.

Notes to the Financial Statements (continued)**1. Statement of Accounting Policies (continued)****1.3 Fixed assets (continued)**

Assets under construction are accounted for at cost, based on the value of architects' certificates and other direct costs, incurred to 31 July 2016. They are not depreciated until they are brought into use.

Freehold land is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated on a straight line basis over their expected useful lives.

The expected useful life of buildings can vary from 10 to 50 years as determined by professional opinion and valuation.

Equipment

Equipment, including computers and software, costing less than £10,000 per individual item and motor vehicles costing less than £5,000 are recognised as expenditure. All other equipment is capitalised and depreciated in accordance with the depreciation policy.

Capitalised equipment is depreciated over its useful economic life as follows:

Buildings	10 to 50 years
Fixtures and fittings	10 years
Computer equipment	3 years
Other equipment	5 years
Motor vehicles	5 years

Where equipment is brought into use mid-way through a year the depreciation charge in the first year will be prorated to reflect the number of months that the asset was in use.

Depreciation methods, useful lives and residual values are reviewed at the date of preparation of each Balance Sheet.

Borrowing costs

Borrowing costs are recognised as expenditure in the period in which they are incurred.

1.4 Finance leases

Leases in which the College assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease and the corresponding lease liabilities are initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

1.5 Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives are spread over the minimum lease term.

1.6 Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

Notes to the Financial Statements (continued)**1. Statement of Accounting Policies (continued)****1.7 Taxation**

The College is an exempt charity within the meaning of the Trustee Investment and Charities (Scotland) Act 2005 and as such, is a charity within the meaning of Section 506 (1) of the Income and Corporation Taxes Act 1988. The College is recognised as a charity by HM Revenue and Customs and is recorded on the index of charities maintained by the Office of Scottish Charity Regulator. It is therefore a charity within the meaning of Para 1 of schedule 6 to the Finance Act 2010 and accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 478-488 of the Corporation Tax Act 2010 (CTA 2010) or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The College receives no similar exemption in respect of Value Added Tax (VAT). Irrecoverable VAT on inputs is included in costs of such inputs. Any irrecoverable VAT allocated to fixed assets is included in their cost.

1.8 Accounting for retirement benefits

All new College employees have the option of joining a pension scheme. The schemes currently open to new members are the Scottish Teachers' Superannuation Scheme and the Dumfries and Galloway Council Pension Fund. Both of the schemes are defined benefit schemes, which are externally funded and contracted out of the State Second Pension (S2P).

Scottish Teachers' Superannuation Scheme

The Scottish Teachers' Superannuation Scheme (STSS) pension scheme provides benefits based on career average salaries. The assets of the scheme are held separately from those of the College. The STSS is a multi-employer scheme for which it is not possible to identify the assets and liabilities to College members due to the mutual nature of the scheme and therefore this scheme is accounted for as a defined contribution retirement benefit scheme.

Dumfries and Galloway Council Pension Fund

The Dumfries and Galloway Council Pension Fund is a pension scheme providing benefits based on career average salaries. The assets and liabilities of the scheme are held separately from those of the College.

Defined Contribution Plan

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Defined Benefit Plan

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the College's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the College. The College should recognise a liability for its obligations under defined benefit plans net of plan assets. This net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The calculation is performed by a qualified actuary using the projected unit credit method. Where the calculation results in a net asset, recognition of the asset is limited to the extent to which the College is able to recover the surplus either through reduced contributions in the future or through refunds to the extent to which the College is able to recover the surplus either through reduced contributions in the future or through refunds.

Notes to the Financial Statements (continued)**1. Statement of Accounting Policies (continued)****1.9 Employment benefits**

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the College. Any unused benefits are accrued and measured as the additional amount the College expects to pay as a result of the unused entitlement.

1.10 Financial Instruments

The College does not hold any complex financial instruments. The only financial instruments included in the financial statements are financial assets in the form of cash and cash equivalents as well as trade receivables and other current assets and financial liabilities in the form of trade receivables and other current liabilities.

All material amounts of trade receivables and other current assets due at 31 July 2016 have been brought into the Statement of Comprehensive Income irrespective of when actual payments were received.

All material amounts of trade payables and other current liabilities outstanding at 31 July 2016 have been brought into the Statement of Comprehensive Income irrespective of when actual payments were made.

1.11 Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when:

- (a) the College has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that an outflow of economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

A contingent liability arises from a past event that gives the College a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the College. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

A contingent asset arises where an event has taken place that gives the College a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the College.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in the notes.

1.12 Reserves

Reserves are classified as restricted or unrestricted. Restricted endowment reserves include balances which, through endowment to the College, are held as a permanently restricted fund which the college must hold in perpetuity.

Other restricted reserves include balances where the donor has designated a specific purpose and therefore the college is restricted in the use of these funds.

1.13 Transition to 2015 SORP

The College is preparing its financial statements in accordance with FRS 102 for the first time and consequently has applied the first time adoption requirements. An explanation of how the transition to the 2015 SORP has affected the reported financial position, financial performance and cash flows of the College is provided in note 27.

Notes to the Financial Statements (continued)

	Year ended 31 July 2016 £000	Period ended 31 July 2015 £000
2 SFC Grants		
FE recurrent grant (including fee waiver)	8,327	11,082
FE and HE childcare funds	279	374
Release of deferred capital grants	672	888
Infrastructure grant	379	379
Other SFC grants	252	183
Total	9,909	12,906
3 Tuition Fees and education contracts		
FE fees - UK	411	448
HE fees	749	919
SDS contracts	333	517
Education contracts	0	2
Other contracts	226	385
Total	1,719	2,271
4 Other grant income		
European funds	0	84
Release of deferred capital grants	87	116
Scottish Colleges Foundation grant (Note 9)	286	1,492
Other grants	22	68
Total	395	1,760
5 Other operating income		
Residences and catering	375	486
Other income-generating activities	19	34
Other income	28	49
Total	422	569

Notes to the Financial Statements (continued)

	Year ended 31 July 2016 £000	Period ended 31 July 2015 £000
6 Endowment and investment income		
Bank interest	11	16
7 Staff costs		
Wages and salaries	6,140	7,711
Social security costs	457	527
Other pension costs (including IAS 19 adjustments of £271k (2015 - £363k) note 19)	1,372	1,640
Staff costs excluding exceptional costs	7,969	9,878
Exceptional costs - severance costs	0	0
Staff costs including exceptional costs	7,969	9,878
Academic/ Teaching departments	4,055	4,988
Academic/ Teaching services	929	1,096
Administration and central services	2,510	3,109
Premises	363	531
Other expenditure	112	154
Catering and residences	0	0
Total	7,969	9,878

The average number of full-time equivalent employees, including higher paid employees, during the year was:

	No.	No.
Academic/ Teaching departments	86	82
Academic/ Teaching services	21	19
Administration and central services	89	92
Premises	14	13
Other expenditure	3	3
Catering and residences	0	0
Total	213	209

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:

	Year ended 31 July 2016		Period ended 31 July 2015	
	Number senior post-holders	Number other staff	Number senior post-holders	Number other staff
£60,001 to £70,000 per annum	3	0	2	0
£70,001 to £80,000 per annum	0	0	0	0
£80,001 to £90,000 per annum	0	0	0	0
£90,001 to £100,000 per annum	1	0	1	0
	4	0	3	0

8 Senior post-holders' emoluments

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

2016 No.	2015 No.
4	4

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

	Year ended 31 July 2016	Period ended 31 July 2015
	£	£
Salaries	278,845	383,118
Pension contributions	54,622	69,749
Total emoluments	333,467	452,867

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

	£	£
Salary (including holiday pay)	93,785	122,100
Pension contributions	19,038	23,975

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 Teachers' Superannuation Scheme. 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 three members of the Board of Management during the year amounted to £614.

Notes to the Financial Statements (continued)

	Year ended 31 July 2016	Period ended 31 July 2015
9 Other operating expenses	£000	£000
Teaching departments	1,003	1,155
Administration and central services	1,087	1,454
Premises costs (including additional Lennartz credit £170,000. 2015- charge - £90,000, note 16)	572	1,277
Planned maintenance	713	1,335
Other employee related costs	130	215
(Gain)/ Loss on disposal of fixed assets	0	(16)
Agency Staff Costs	46	61
Residences and catering	379	516
Overspend on student support funds	0	5
	3,930	6,002
Transfer to Arms Length Foundation	0	18
Total	3,930	6,020
Other operating costs include:		
Auditors' remuneration		
- external audit of these financial statements	15	15
-internal audit services *	14	24
- other services	5	0
Hire of plant and machinery - operating leases	84	106

* Two different professional firms provide External Audit and Internal Audit services.

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. No donations from the College to the Foundation were made in the period to 31 July 2016 (2015 - £17,500). The Foundation has continued to provide financial support for developments during the current financial period, as detailed at Note 4, and the College will be able to apply for funding for future projects which will not be able to be met from reserves after 1 April 2014 due to re-classification of the College sector.

A significant 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 2015 Statement of Recommended Practice and FRS 102, it is now also required to comply with Central Government budgeting rules. This affects, among other things, the way in which non-cash depreciation charges are treated as well as accounting for the annual valuation of the Local Government Pension Scheme (LGPS). During the 2015-16 budget period the College received cash for budgeted depreciation costs, and without approval to spend this cash, it would have been effectively frozen. The underlying operating position would therefore have been a small surplus before accounting for this additional expenditure and the adjustments for the pension valuation.

The Scottish Funding Council issued guidance to the College on this matter on 30 March 2015 which provided approval for the depreciation cash budget to be used for specific other areas of expenditure. During 2015-16, £380,000 of depreciation cash budget was used to fund pay costs and curriculum developments. In addition, the accounting adjustments to update the LGPS valuation at 31 July 2016 have resulted in a net charge of £464,000 to expenditure.

The impact of the above has contributed £844,000 to the reported deficit for the 2015-16 financial period (2014-15 - £896,000). 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)

	Year ended 31 July 2016 £000	Period ended 31 July 2015 £000
10 Interest payable		
Net interest cost on pension liability (note 19)	<u>193</u>	<u>237</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	Fixtures, Fittings and Equipment £000	Motor Vehicles £000	Total £000
Cost or valuation				
At 1 August 2015	38,209	337	253	38,799
Additions	0	0	0	0
Disposals	0	0	0	0
At 31 July 2016	<u>38,209</u>	<u>337</u>	<u>253</u>	<u>38,799</u>
Depreciation				
At 1 August 2015	393	286	167	846
Provided during period	1,164	14	19	1,197
On disposals	0	0	0	0
At 31 July 2016	<u>1,557</u>	<u>300</u>	<u>186</u>	<u>2,043</u>
NBV at 1 August 2015	<u>37,816</u>	<u>51</u>	<u>86</u>	<u>37,953</u>
NBV at 31 July 2016	<u>36,652</u>	<u>37</u>	<u>67</u>	<u>36,756</u>
Inherited	3,820	0	0	3,820
Financed by capital grant	32,832	37	64	32,933
Other	0	0	3	3
At 31 July 2016	<u>36,652</u>	<u>37</u>	<u>67</u>	<u>36,756</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 £36,652,000 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.

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	0
	<u>0</u>

13 Debtors: Amounts falling due within one year

	Year ended 31 July 2016 £000	Period ended 31 July 2015 £000
Trade debtors - net of provision for doubtful debts	50	56
Prepayments and accrued income	461	241
	<u>511</u>	<u>297</u>

14 Cash and cash equivalents

	31 July 2016 £000	31 July 2015 £000
Cash and cash equivalents	1,947	2,163

The College receives certain Scottish 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.

Agency funds of £363,000 are included in the cash and cash equivalents at the year end.

15 Creditors: Amounts falling due within one year

	Year ended 31 July 2016 £000	Period ended 31 July 2015 £000
Trade creditors	73	19
VAT	86	96
HMRC Lennartz Scheme	333	373
Other taxation and social security	141	118
Pension	130	115
Contract retentions	131	142
Accruals and deferred income	969	761
Deferred capital grants	758	756
Bursaries and Access funds for future disbursement (note 14)	363	251
	<u>2,984</u>	<u>2,631</u>

Deferred capital grants to be released within one year are included within current creditors, and the balance of deferred capital grants within long term creditors at note 16 in accordance with the requirements of FRS 102 and the 2015 SORP. The impact of the transition to FRS 102 and the 2015 SORP on the 31 July 2015 Balance Sheet and Statement of Comprehensive Income is detailed in note 27, and has increased current creditors at 31 July 2015 by £756,000 and long-term creditors at 31 July 2015 by

Notes to the Financial Statements (continued)

16 Creditors: Amounts falling due after more than one year

	Year ended 31 July 2016	Period ended 31 March 2015
	£000	£000
HMRC Lennartz Scheme	333	745
Deferred capital grants	23,377	24,135
	23,710	24,880

The estimated future liability under the Lennartz agreement was recalculated during the period, and showed a net decrease of £170,000 which has been credited to premises costs (note 9).

Deferred capital grants to be released within one year are included within current creditors, and the balance of deferred capital grants within long term creditors at note 16 in accordance with the requirements of FRS 102 and the 2015 SORP. The impact of the transition to FRS 102 and the 2015 SORP on the 31 July 2015 Balance Sheet and Statement of Comprehensive Income is detailed in note 27, and has increased current creditors at 31 July 2015 by £756,000 and long-term creditors at 31 July 2015 by £24,135,000.

17 Provisions for liabilities and charges

	Early Retirement pension costs	Defined Pension obligations (Note 19)	Other	2015-16 Total	2014-15 Total
At 1 August 2015	787	5,219	9	6,015	4,678
Expenditure in the period	(48)	(582)	(9)	(639)	299
Additional provision required in period	36	853	0	889	95
Revaluation adjustment	0	1,825	0	1,825	691
Interest charged	8	193	0	201	252
At 31 July 2016	783	7,508	0	8,291	6,015

The Early Retirement pension costs provision has been revalued using actuarial tables supplied by the Scottish Funding Council. The net interest rate applied was 0.5%.

Other provisions relate to redundancy costs.

18 Lease obligations

	Year ended 31 July 2016 £000	2015 £000
Total rentals under operating leases for equipment are as follows:		
Payable during the period	53	48
Future minimum lease payments due:		
- Not later than 1 year	4	48
- Later than 1 year and not later than 5 years	248	182
Total lease payments due	252	230

Notes to the Financial Statements (continued)

19 Pensions and similar obligations

The College's employees belong to two principal pension schemes, the Scottish Teachers Superannuation Scheme (STSS) which is administered by the Scottish Public Pensions Agency and the Local Government Pension Scheme (LGPS) - The Dumfries and Galloway Council Pension Fund.

The total pension costs for the institution was :

	12 months to July 2016 £000	16 months to July 2015 £000
Contribution to STSS	513	580
Contribution to LGPS	557	682
Pension costs as a result of implementing FRS 102	464	600
Total pension cost	1,534	1,862

Employer contribution rates during the period were:

STSS - 14.9% to August 2015

- 17.2% from September 2015

LGPS - 20.3% plus a monetary payment as noted below

The Scottish Teachers Superannuation Scheme

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 STSS 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 STSS scheme on a consistent and reasonable basis and therefore, as required by FRS 102 (28), 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 2016.

Following the revaluation of the Dumfries and Galloway Council pension fund at 31 March 2014, the actuary determined that the funding level for Dumfries and Galloway College's element of the fund has decreased from 102% at 31 March 2011 to 98% at 31 March 2014, and the College element of the fund is in deficit. The future service rate for Dumfries and Galloway College has been calculated at 20.3% of pensionable pay, and the deficit to the fund is being met from a monetary payment rather than an adjustment to the contribution rate. The actuary has set employer contribution rates for three years at the future service rate plus a monetary payment, and total employer contributions to be applied for three years from 1 April 2015 are as follows:

2015/16 - 20.3% of pensionable pay plus £23,000
 2016/17 - 20.3% of pensionable pay plus £24,000
 2017/18 - 20.3% of pensionable pay plus £25,000

Notes to the Financial Statements (continued)

19 Pensions and similar obligations (continued)

Assumptions

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

	As at 31/07/16	As at 31/07/15
	%	%
Discount rate	2.40%	3.60%
Expected rate of return on plan assets	2.40%	3.60%
Future salary increases	3.90%	4.50%
Inflation/ pension rate increase	1.90%	2.60%

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2012 model assuming current rates of improvement have peaked and will converge to a long term rate of 1.25% p.a. based on these assumptions, the average life expectancies at age 65 are summarised below.

- Current pensioner aged 65: 22.7 years (male), 24 years (female).
- Future retiree upon reaching 65: 24.5 years (male), 26.7 years (female).

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

Scheme assets and expected rate of return for LGPS

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

	Year ended 31 July 2016	Period ended 31 July 2015	Period ended 31 March 2014
	Fair value £000	Fair value £000	Fair value £000
Equities	13,016	12,143	10,025
Corporate bonds	3,031	2,429	2,005
Property	1,783	1,619	1,069
Other	0	0	267
	17,830	16,191	13,366
Actual return on plan assets	809	1,524	498

Notes to the Financial Statements (continued)

19 Pensions and similar obligations (continued)

Analysis of amount shown in the Balance Sheet for LGPS pensions:

	Year ended 31 July 2016	Period ended 31 July 2015
	£000	£000
Scheme assets	17,830	16,191
Scheme liabilities	<u>(25,314)</u>	<u>(21,387)</u>
	(7,484)	(5,196)
Present value of unfunded defined benefit obligations	<u>(24)</u>	<u>(23)</u>
Deficit in the scheme - net pension liability	<u>(7,508)</u>	<u>(5,219)</u>
Current service cost	<u>(853)</u>	<u>(1,045)</u>
Total operating charge	<u>(853)</u>	<u>(1,045)</u>

Analysis of the amount charged to interest payable/ credited to other finance income for LGPS pensions:

Interest cost	(780)	(1,022)
Expected return on assets	587	785
Interest on net deficit		0
Net charge to other finance income	<u>(193)</u>	<u>(237)</u>
Total income and expenditure charge before deduction for tax	(1,046)	(1,282)

Analysis of other comprehensive income for LGPS pensions:

Gain on assets	809	1,567
Experience loss on liabilities	(2,634)	(2,258)
Total other comprehensive income before deduction for tax	<u>(1,825)</u>	<u>(691)</u>

Notes to the Financial Statements (continued)

19 Pensions and similar obligations (continued)

	Period ended 31 July 2016	Period ended 31 July 2015
Analysis of movement in surplus/ (deficit) for LGPS pensions		
Deficit at the beginning of the period	(5,219)	(3,928)
Contributions paid by the College	582	682
Current service cost	(853)	(1,045)
Other finance charge	(193)	(237)
(Loss) recognised in other comprehensive income	<u>(1,825)</u>	<u>(691)</u>
Deficit at the end of the period	<u>(7,508)</u>	<u>(5,219)</u>
 Movement in the present value of the fair value of pension plan assets		
Present value of assets at the start of the period	16,191	13,366
Interest income	587	785
Participants contributions	163	211
College contributions	582	682
Benefits paid	(502)	(420)
Return on assets	<u>809</u>	<u>1,567</u>
Present value of assets at the end of the period	<u>17,830</u>	<u>16,191</u>
 Movement in the present value of pension liabilities		
Present value of obligations at the start of the period	(21,410)	(17,294)
Current service costs (net of member contributions)	(853)	(1,045)
Interest cost	(780)	(1,022)
Participants contributions	(163)	(211)
Benefits paid	502	420
Change in financial assumptions and other experience	<u>(2,634)</u>	<u>(2,258)</u>
Present value of obligations at the end of the period	<u>(25,338)</u>	<u>(21,410)</u>

The Actuarial report at 31 July 2016 has highlighted that the balance sheet position has worsened as a result of a decrease in the discount rate over this period. The effect of this may have been partially offset by greater than expected asset returns. The projected 2016-17 charge is likely to be higher than 2015-16 due to a lower net discount rate leading to a higher service cost.

Notes to the Financial Statements (continued)

20 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

The Crichton Foundation has previously provided grant funding towards the Henry Duncan building, which forms part of the Crichton Campus. During the year ended 31 July 2016 the Crichton Foundation provided grant funding of £10,000 for student support in 2015-16 which was fully disbursed to students by the College during the period, and £10,000 was received in July 2016 which will be disbursed to students during 2016-17. In addition, £1,500 was invoiced to Crichton Foundation in respect of prizes for the annual College Award Ceremony. No balances were outstanding at 31 July 2016.

The College provided training courses to Dumfries and Galloway Housing Partnership during the year ended 31 July 2016. Invoices to Dumfries and Galloway Housing Partnership amounted to £9,073. No balances were due to the College from Dumfries and Galloway Housing Partnership at 31 July 2016.

The College has engaged 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 £21,229. No balances were due to William Waugh by the College at 31 July 2016.

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 three members of the Board of Management during the year amounted to £614.

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

Notes to the Financial Statements (continued)

21 FE Bursaries and other Student Support Funds

	FE			Period ended 31 July 2016	Period ended 31 July 2015
	Bursary	EMA's	Other	£000	£000
Balance brought forward	239	0	0	239	0
Allocation received in period (including interest)	1,800	279	139	2,218	3,175
	2,039	279	139	2,457	3,175
Expenditure	(1,557)	(279)	(161)	(1,997)	(2,871)
Repayable to Funding Council as Clawback	(133)	0	0	(133)	0
College Contribution to funds	0	0	1	1	13
Virements between FE and HE Childcare and FE Discretionary funds	0	0	21	21	(78)
Balance Carried forward	349	0	0	349	239
Represented by:					
Repayable to Funding Council as Clawback	243	0	0	243	239
Retained by College for Students	106	0	0	106	0
	349	0	0	349	239

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.

22 FE and HE Childcare Funds

	Period ended 31 July 2016	Period ended 31 July 2015
	£000	£000
Balance brought forward	0	0
Allocation received in period	303	296
	303	296
Expenditure	(279)	(374)
Virements to FE Discretionary funds	(21)	78
Balance Carried forward	3	0
Represented by:		
Repayable to Funding Council as Clawback	3	0
Retained by College for Students	0	0
	3	0

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.

23 Capital Commitments

Provision has not been made for the following capital commitments at 31 July 2016:

	Period ended 31 July 2016	Period ended 31 July 2015
	£000	£000
Commitments contracted for	24	0

Notes to the Financial Statements (continued)

24 Post Balance Sheet Events

There are no post balance sheet events.

25 Contingent Liabilities

The College had no contingent liabilities at 31 July 2016 and 31 July 2015.

26 Comparatives

The comparative figures relate to the 16 month period 1 April 2014 to 31 July 2015.

27 Transition to FRS 102 and the 2015 SORP

As explained in the accounting policies, these are the College's first financial statements prepared in accordance with FRS 102 and the SORP. The accounting policies set out on pages 40 to 44 have been applied in preparing the financial statements for the year ended 31 July 2016, the comparative information presented in these financial statements for the period ended 31 July 2015 and in the preparation of an opening FRS 102 Statement of Financial Position at 1 April 2014. In preparing its FRS 102, SORP based Statement of Financial Position, the College has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (2007 SORP). An explanation of how the transition to FRS 102 SORP has affected the College's financial position, financial performance and cash flows is set out in the following tables.

Notes	1 April 2014			31 July 2015		
	2007 SORP	Effect of transition to	2015 SORP	2007 SORP	Effect of transition to	2015 SORP
	£000	£000	£000	£000	£000	£000
Non-current assets						
Fixed Assets	40,521	0	40,521	37,953	0	37,953
Current assets						
Trade and other receivables	1,001	0	1,001	297	0	297
Cash and cash equivalents	2,127	0	2,127	2,163	0	2,163
	3,128	0	3,128	2,460	0	2,460
Less: Creditors: amounts falling due within one year	(2,464)	(745)	(3,209)	(1,875)	(756)	(2,631)
Net current (liabilities)/assets	664	(745)	(81)	585	(756)	(171)
Total assets less current liabilities	41,185	(745)	40,440	38,538	(756)	37,782
Creditors: amounts falling due after more than one year	(1,184)	(25,023)	(26,207)	(745)	(24,135)	(24,880)
Provisions						
Provisions for liabilities	(750)	0	(750)	(796)	0	(796)
Other pension liability	(3,928)	0	(3,928)	(5,219)	0	(5,219)
Total net assets	35,323	(25,768)	9,555	31,778	(24,891)	6,887
Deferred capital grants	26,980	(26,980)	0	26,727	(26,727)	0
Unrestricted Reserves						
Income and expenditure reserve - unrestricted	1,729	1,212	2,941	486	1,836	2,322
Revaluation reserve	6,614	0	6,614	4,565		4,565
	8,343	1,212	9,555	5,051	1,836	6,887
Total Reserves	35,323	(25,768)	9,555	31,778	(24,891)	6,887

Notes to the Financial Statements (continued)

27 Transition to FRS 102 and the 2015 SORP (continued)

	2007 SORP £'000	STRGL £'000	Effect of transition to 2015 SORP £000	2015 SORP £000
Income				
SFC grants	12,906	0	0	12,906
Tuition fees and education contracts	2,271	0	0	2,271
Other grant income	1,136	0	624	1,760
Other income	569	0	0	569
Endowment and investment income	93	0	(77)	16
Total income before donations and endowments	16,975	0	547	17,522
Donations and endowments	0	0	0	0
Total income	16,975	0	547	17,522
Expenditure				
Staff costs	9,878	0	0	9,878
Fundamental restructuring costs	0	0	0	0
Other operating expenses	6,002	0	0	6,002
Transfer to Arms Length Foundation	18	0	0	18
Depreciation	1,579	0	0	1,579
Interest and other finance costs	0	0	237	237
Total expenditure	17,477	0	237	17,714
(Deficit)/ Surplus for the period	(502)	0	310	(192)
Unrealised (deficit) on revaluation of land and buildings	0	(1,785)	0	(1,785)
Actuarial (loss)/gain in respect of pension schemes	0	(1,005)	314	(691)
Total comprehensive income for the period	(502)	(2,790)	624	(2,668)

The key impact for Dumfries and Galloway College on transition to FRS 102 relates to capital grants. The value of deferred capital grants is a significant item in the College balance sheet, and reflects the large proportion of grants which were received from Scottish Funding Council and European Regional Development Funds for the College's Dumfries campus building. In addition, the Scottish Colleges Foundation provided a grant of £1,492,000 to fund development of a training kitchen and restaurant in the year ended 31 July 2015, of which £672,000 related to fixed assets.

The grants relating to fixed assets in the College balance sheet were accounted for as a deferred reserve under UK GAAP with a release of grant to income in the College Income and Expenditure Account over the expected useful life of the asset. Total deferred grants amounted to £26,727,000 at 31 July 2015.

The transition to FRS 102 has resulted in grants of £672,000 being treated as revenue income for the year ended 31 July 2015, and a reduction in the release of non-government grants during the year of £48,000.

FRS 102 requires the balance of deferred capital government grants amounting to £24,891,000 at 31 July 2015 require to be accounted for as creditor balances rather than reserves. The balance has been split between current liabilities of £756,000 and long-term liabilities of £24,135,000. The College balance sheet at 31 July 2015 shows net current liabilities of £171,000 as a result of this change in disclosure and a reduction of £24,891,000 in total reserves.

In addition, the annual valuation of the Local Government Pension Scheme is accounted for under IAS 19, which has changed the interest charge for the year ended 31 July 2015 and the Actuarial adjustment.

2015-16 Accounts direction for Scotland's colleges and universities

- 1 It is the Scottish Funding Council's direction that colleges and universities comply with the 2015 *Statement of Recommended Practice: Accounting for Further and Higher Education* (SORP) in preparing their annual report and accounts.
- 2 Colleges and universities must comply with the accounts direction in the preparation of their annual report and accounts in accordance with the Financial Memorandum with the Scottish Funding Council (SFC) or the Regional Strategic Body (for assigned colleges).
- 3 Incorporated colleges are also required to comply with the Government Financial Reporting Manual 2015-16 (FReM) where applicable.
- 4 Incorporated colleges are reminded that they must send two copies of their annual report and accounts to the Auditor General for Scotland by 31 December 2016.
- 5 The annual report and accounts should be signed by the chief executive officer and by the chair, or one other member of the governing body.
- 6 Incorporated colleges should reproduce this Direction as an appendix to the annual report and accounts.

Scottish Funding Council
24 August 2016



DUMFRIES AND GALLOWAY COLLEGE

Student Activity Data

REVISED FINAL

Internal Audit Report: 2.16/17

7 October 2016



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Debrief held	09 September 2016	Internal Audit team	Rob Barnet, Head of Internal Audit
Draft report issued	19 September 2016		Philip Church, Manager
Responses received	20 September 2016		Eddie Ndhlovu, Senior Auditor
Final report issued	21 September 2016	Client sponsor	Jannette Brown, Vice Principal
Revised final report issued	7 October 2016	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 that underpin the completion of the FES return.

Our review of Student Activity Data was conducted in accordance with the SFC's 2015/16 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 and extended learning support;
- Fee waiver; and
- Calculation of credits.

Since the previous review, there has been no change to the systems and procedures in use by Dumfries and Galloway College.

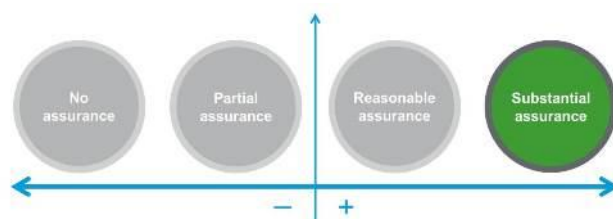
We issued our audit certificate to the College in September 2016. The audit certificate is attached to this report at Appendix C.

1.2 Conclusion

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 Credits Guidance. Through review of source documentation and substantive testing we did not identify any anomalies resulting in no management actions being raised.

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 area are suitably designed, consistently applied and operating effectively.



1.3 Key findings

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

- The College had in place processes for ensuring that credit treatments are correct, our testing of 10 courses which included full-time, part-time and fixed tariffs confirmed this was the case.
- The recording and checking of student activity data confirmed that the correct coding had been used for learners and courses leading to the correct codes being used in the credits allocation.
- The review of student attendance in line with the attendance criteria in the funding guidance. A review of 10 courses found that the system calculation of the required date of attendance had been accurately.
- A review of the credits calculations in line with the requirements. Testing of 25 courses confirmed that the individual credits had been calculated accurately.
- The identification of infill students and how these were appropriately coded.
- The processes in place to ensure courses / programmes were consistently coded.
- The processes in place for dealing with student withdrawals and ensuring that there is evidence of the student's attendance after the required date.
- A review of the fee waiver processes and evidence of eligibility of the students.

1.4 Additional information to support our conclusion

Area	Control design*	Compliance with controls*	Agreed actions		
			Low	Medium	High
Non Fundable Activity	0 (1)	0 (1)	0	0	0
Non Fundable Students	0 (1)	0 (1)	0	0	0
Classification of HE/ FE, FT and other modes of provision	0 (1)	0 (1)	0	0	0
Infill Students	0 (1)	0 (1)	0	0	0
Course/Programme Coding	0 (1)	0 (1)	0	0	0
Required Attendance Criteria	0 (3)	0 (3)	0	0	0
Calculation of Credits	0 (1)	0 (1)	0	0	0
Claims per Student	0 (1)	0 (1)	0	0	0
ELS Student Records	0 (2)	0 (2)	0	0	0
Fee Waiver	0 (1)	0 (1)	0	0	0
Registers	0 (1)	0 (1)	0	0	0
Total			0	0	0

* 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

Our internal audit findings and the resulting actions are shown below.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
Area: Non Fundable Activity						
1	Offerings are pre-populated on the system and allocated a code depending on whether the offering is fundable or non-fundable. When a student is entered onto the system the course identified on the enrolment form is selected from a prepopulated drop down list. Code nine courses are fundable.	Yes	Yes	A sample of ten course courses was selected and it was confirmed that they all were code nine courses and therefore the credits had correctly been included in the claim calculations. Our testing also confirmed that in every case tested the course spanned over a year.	-	No management action required
Area: Non Fundable Students						
2	Students are coded on the enrolment form according to the category of funding eligibility. Overseas students and bespoke course students are the only students who are non-fundable. When student enrolment details are entered onto the system, the Strategic Information Technology System (SITS) system automatically identifies students and those who have been allocated to a fundable course and excludes them from the credits claim.	Yes	Yes	A sample of 25 non-fundable students on the College administration system was selected and it was confirmed that these had been classified within the SITs system correctly and the credits claim element had not been calculated.	-	No management action required
Area: Classification of HE/ FE, FT and other modes of provision						
3	The College has a defined course coding structure made up of four	Yes	Yes	A sample of ten course was reviewed and it was confirmed that	-	No management action required

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
	characters (five for courses offered by the Stranraer site). The mode of attendance is captured on the enrolment form and details are entered onto the SITs system when processing the student enrolment.			the course coding used by the College matched the 2015/16 FES Guidance code list G and that the mode of attendance had been correctly classified within the system.		
Area: Infill Students						
4	Infill students are required to complete a separate enrolment form which is in addition to the standard full time enrolment form. The form captures details of the course, the start and end dates and fee details. Students are categorised on the system as infill and therefore the system only counts them on the return once.	Yes	Yes	A sample of ten infill students was selected both from the administration system and infill form file and it was confirmed that each student had been correctly classified in the SITs system and the information recorded for each student had been correctly input from the enrolment form to SITS and vice versa. In all cases tested we found that an infill enrolment form had been completed and was available for review.	-	No management action required
Area: Course/Programme Coding						
5	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 courses was selected and it was confirmed that the classification of each course within the system was in line with the 2015/16 FES guidance code list I.	-	No management action required
Area: Required Attendance Criteria						
6	Start and end dates are taken from the SR1 forms completed by the curriculum areas. Student Records input the start and end dates into the system and the system calculates the 25% attendance and identifies	Yes	Yes	A sample of ten course offerings was reviewed and it was confirmed that the system had correctly calculated the required date for attendance. It was also confirmed that the start and end dates of the	-	No management action required

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
	the 'required date'. The required date is then input to the system by Student Records.			course had been correctly entered into the system from the course set up forms where appropriate.		
7	Withdrawal forms are completed by a member of staff (e.g. tutor) electronically and as such the system automatically updates. The withdrawal date is the last date of attendance, which is taken directly from the online electronic registers. Where the last date of attendance is earlier than the required date the system automatically excludes the student from the credits return.	Yes	Yes	<p>1. We selected a sample of 25 student withdrawals where the last date of attendance was before the required date. It was confirmed through testing that in all cases selected the students had not been included in the claim calculations and hence had not been part of the credits claimed by the college.</p> <p>2. We tested a sample of 25 student withdrawals where the last date of attendance was after the required date It was confirmed that in all cases the student had been correctly included in the claim calculations therefore the college had claimed</p>	-	No management action required
8	The College can claim credits where a student has attended after 25% of the course. Students who do not attend after the 25% rule, the College cannot claim credits for them. A student that attends even one session after the 25% date, the college can claim for the credits. The student must attend one session after the 25% before credits can be claimed.	Yes	Yes	<p>1. A sample of 25 students included in the 2015/16 claim calculations was selected and from reviewing the student attendance data within the student records system, it was confirmed that each student that had met the 25% attendance rule i.e. attended at least one session after the required. Review of the electronic registers on the student administration system confirmed this.</p> <p>2. A sample of 25 students where the last date of attendance was</p>	-	No management action required

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
				before the required date was selected and it was confirmed that these students had not been included on the return. We reviewed the registers and confirmed their last attendance date was documented in the student administration system.		
Area: Calculation of Credits						
9	Student records input the total course duration (in hours) divided by 40 (per the guidance) into the SITs system. The credit values are then calculated automatically by the system.	Yes	Yes	For a sample of 25 course hour calculations, it was confirmed that in all cases, the individual credit calculation was accurately reflected on the SITs system and matched with the credits included in the student administration system.	-	No management action required
Area: Claims per Student						
10	Students Records identify from the enrolments download where students are undertaking related study. The Credits claimed are then checked.	Yes	Yes	Discussions with the Student Records Manager noted that following changes in 2015/16, the College did not have related study students. We were advised that they were courses that were listed as plus ones and no longer were part of the related study programme. At the time of the audit, the manager made calls to the funding to obtain clarification and were advised that the new guidance was still on trial and further changes would be made following the current year audit.	-	No management action required
Area: ELS Student Records						
11	Students who require extended	Yes	Yes	A sample of 15 students with	-	No management action required

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
	<p>learning support can be identified either during the enrolment process (on the form) or during the year through pastoral support. At the start of the year student services provide student records with a list of students who they anticipate will require ELS during the year and receive updates as to whether this has occurred.</p> <p>At the end of the year student services provide student records with a list of students who have actually received additional learning support and these are entered onto the system.</p>			extended learning support was selected and it was confirmed that for all cases, there was a Personal Learning Study Plan (PLSP) or extended learning agreement in place which included details of the learning need.		
12	Course coding determines whether the course is a DPG 18 course and the system automatically adjusts the credit 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 credits claim.	Yes	Yes	For a sample of 10 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 credit claim calculations.	-	No management action required
Area: Fee Waiver						
13	Fee payment details are recorded on the enrolment form. Where fee waiver is applicable, the student must complete a fee waiver form. The student category is then recorded on the system.	Yes	Yes	A sample of 10 students receiving 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 SITS system.	-	No management action required

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

14	The College tutors have the responsibility for completing class register on the day of the course and in a timely manner. The register is used to calculate whether the college claims credits for a student who met the 25% rule or not.	Yes	Yes	We reviewed a list of 15 courses and selected random dates to ensure that a register was being completed. In 12 cases an electronic register had been completed and we found evidence of this on the student administration system. We noted that the tutors completed registers promptly following classes. The three other cases related to short courses whose registers had been completed on the day of attendance manually by the tutor. We found that in one instance the register had not been signed by the tutor. We have not raised a recommendation against as we found it to be an isolated case.	-	No management action required
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APPENDIX A: SCOPE

Scope of the review

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 area:

Objective of the area under review

The College has appropriate systems in place to ensure the data accuracy of the credits return.

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

Areas for consideration:

We have considered the following areas as part of the review:

Procedures for identifying and eliminating non-fundable activity

- We have tested a sample of 10 courses/ programmes (including full-time, part-time and fixed tariffs) to ensure that the Credits treatment is correct.

Procedures for identifying and eliminating non-fundable students from return

- We have tested a sample of 25 non-fundable students to ensure they are not included as fundable. Procedures for the classification of HE/ FE, FT and other modes of provision.

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

- We have tested a sample of 10 infill students to confirm treatment was correct.

Procedures in place to ensure courses/ programmes are consistently coded

- We have tested a sample of 20 modules within programmes to ensure consistency.

Procedures for dealing with student withdrawals

- We have tested a sample of 10 courses to ensure that start, end and required dates have been calculated correctly.
- We have tested a sample of 25 course enrolments (including online enrolments) to check the supporting records and the exclusion of students from the return who do not meet the 25% rule.
- We have tested a sample of 25 students included in the return to ensure evidence of attendance after the required date.

Procedures for calculation of Credits

- We have tested a sample of 25 individual credit calculations for accuracy.

Procedures for ensuring that the Credits claimed per student do not exceed the maximum

- We have reviewed a sample of 20 students for who related study has been claimed to ensure the claim is appropriately justified.

Procedures for identifying and administering ELS student records

- For a sample of 15 ELS students, we have tested the availability and completeness of their PLSPs.
- For a sample of 10 additional support needs students, we have tested to ensure that the Credits are based upon either ELS or DPG 18.

Fee waiver procedures

- We have tested a sample of 10 eligible students, to ensure that these students were only recorded where they are attending eligible programmes, and that the fee waivers for these students were accurately recorded and categorised.

How attendance is monitored and recorded, e.g. attendance register

- We also tested a sample of 15 registers to ensure that they are completed correctly and input in a timely manner.

The following limitations apply to the scope of our work:

- Testing was performed on a sample basis and therefore we cannot give absolute assurance that the system was free of material error.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit:

- Angela Wells, Student Records Manager

Documentation reviewed during the audit:

- Credits listing, 2015/16
- Students listing, 2015/16
- Course/ Programme listing 2015/16

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 'Credits' Guidance issued 19 May 2015 and which has been confirmed as being free from material misstatement by the College's Principal in her Certificate on the 6th October 2016.

We conducted our audit in accordance with guidance contained in the 2015/16 Audit Guidance for colleges.

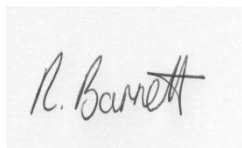
The audit included an examination of the procedures and controls relevant to the collection and recording of student data. We evaluated the adequacy of these controls in ensuring the accuracy of the data. It also included examination, on a test basis, of evidence relevant to the figures recorded in the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



Date: 7th October 2016

Name of audit firm: RSM Risk Assurance LLP

Contact name: Robert Barnett

Contact telephone number: 07791 237658

Date 7th October 2016

:

FOR FURTHER INFORMATION CONTACT

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DUMFRIES AND GALLOWAY COLLEGE

Student Support Fund

FINAL

Internal Audit Report: 1.16/17

11 October 2016



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Debrief held	22 June 2016	Internal Audit team	Rob Barnett, Head of Internal Audit
Draft report issued	7 July 2016		Philip Church, Manager
Responses received	6 October 2016		Eddie Ndhlovu, Senior Auditor
Final report issued	11 October 2016	Client sponsor	Marion Erne, Student Funding Officer
			Karen Hunter, Finance Manager
		Distribution	Marion Erne, Student Funding Officer
			Karen Hunter, Finance Manager

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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 2016/17.

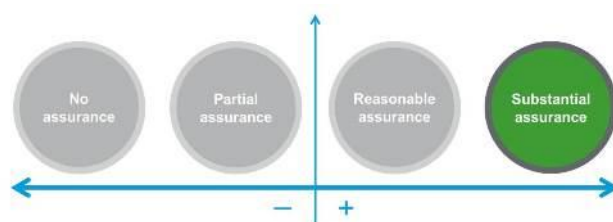
Our review of Bursaries, Student Support Funds and the Education Maintenance Allowance (EMA) was conducted in accordance with the Scottish Funding Council's (SFC) 2015/16 audit guidance for colleges. It included a detailed review of the processes and controls in place relevant to the processing of applications and payments, and testing of these controls in order to assess the accuracy of the data.

1.2 Conclusion

Our audit work confirmed that there are adequate and effective controls in place around the allocation and monitoring of student support funds. We identified one area of improvement which has resulted in one 'medium' priority management action, in relation to the erroneous bursary payment made to a student who had less than the required 90% attendance.

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 are suitably designed, consistently applied and operating effectively.



1.3 Key findings

We reviewed key controls and considered the controls in place for the delivery of the student support fund functions 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.
- 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 Funding 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 is forecasting an underspend this year; hence will not be required to bear any costs 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.

1.4 Additional information to support our conclusion

Risk	Control design*	Compliance with controls*	Agreed actions		
			Low	Medium	High
Funding received from SFC is incorrectly recorded in the ledgers.	0 (3)	0 (3)	0	0	0
Awards are paid incorrectly.	0 (7)	0 (7)	0	0	0
Bursaries are paid to students who have not met the attendance criteria.	0 (3)	1 (3)	0	1	0
Use of bursary funds for childcare exceeds the maximum amount allowed and the College has not made a provision to fund the excess from the	0 (1)	0 (1)	0	0	0
Audited return is not in agreement with underlying records in the College ledgers.	0 (1)	0 (1)	0	0	0
Limits specified on fund accounts are exceeded and the college has not made provision to fund this from its own resources.	0 (1)	0 (1)	0	0	0
Alternative travel allowance is paid incorrectly.	0 (1)	0 (1)	0	0	0
Bursary overspends are not charged to the income and expenditure account.	0 (1)	0 (1)	0	0	0
Support funds are used for purposes specifically disallowed in the national policy.	0 (2)	0 (2)	0	0	0
Childcare payments are made without due reference to the circumstances of the applicant.	0 (1)	0 (1)	0	0	0
Total		1	0	1	0

* 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 ACTION PLAN

Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may, with a high degree of certainty, lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

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

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
Risk: Bursaries are paid to students who have not met the attendance criteria.					
11	In one instance we found a student who had 25% attendance on the week commencing 7 th December 2015 and had received £74 bursary monies. This amount had been paid when the student had less than 90% attendance which is a weekly requirement hence should not have been paid.	Medium	The College makes every effort to ensure that no overpayments are made. However, there are some times each year when turnaround times are challenging. The College has robust procedures, and continue to develop efficient processes and procedures to help ensure that all bursary payments are only paid to students who have met the required attendance criteria. Payment dates are being assessed in order to help ensure checks can be performed on all student attendance prior to each payment run.	Implemented and On-going	Student Funding Officer

3 DETAILED FINDINGS

Our internal audit findings and the resulting actions are shown below.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
Risk: Funding received from SFC is incorrectly recorded in the ledgers.						
1	The College maintains a separate bank account for bursary funds. 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. 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.	Yes	Yes	Not tested this year, as the bursaries in 2015/16 were not required to be transferred into a separate bank account. We however reviewed the income received in January, March and May 2016 by the College and confirmed that the amount stated on the funding letter reconciled with the amount paid into the College main bank account and had been coded correctly to the ledger account.	-	No management action raised
2	The College maintains a separate bank account for student support funds from Student Awards Agency for Scotland (SAAS) 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. 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	Yes	Yes	<p>We reviewed two receipts into the College's current bank account (£27,050 and £11,593) from the Student Awards Agency for Scotland (SAAS). We obtained a letter from the SAAS detailing the amounts allocated to the College and found that this amounted to a total £38,643. This had been paid in two instalments, as stated above.</p> <p>It was confirmed through review of evidence that the amounts had subsequently been transferred into the student support fund account</p>	-	No management action raised

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
	the student support fund account and makes the necessary adjustments in the ledgers.			and journal adjustments had been made in the accounting system. We also noted that the third receipt was in relation to the College requesting a supplementary allocation for discretionary funds of £15,000 during the year; we reviewed the payments and found that they had been paid into the main College account and transferred out to the discretionary bank account and the associated journal entries had been made.		
3	EMA payments and receipts are all processed through the College's current account. Receipts are monthly and based on the claim submitted.	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.</p> <p>We reviewed the EMA claims for November 2015, December 2015 and January 2016 and noted that in each instance the drawdown claimed did not match the total amounts paid out to students.</p> <p>Discussions with the Finance Manager noted that the drawdown was merely based on a forecast and over the year the amount were expected to balance. SFC is aware of the residual amounts held by the College at any given point and can claw back any amounts needed.</p> <p>All three claims were signed by the Finance Manager.</p>	-	No management action raised

Risk: Awards are paid incorrectly.

4	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.	Yes	Yes	A sample of 15 students receiving financial assistance in the 2015/16 year through bursaries (five students), EMA (five students) and student support (five students) was reviewed. It was confirmed that in all 15 cases the student had provided the necessary proof of eligibility along with their signed applications for funding.	-	No management action raised
5	Eligibility criteria for courses are listed in the national bursary policy document and these are prepopulated in the funding system. The system automatically determines whether the student is eligible for funding.	Yes	Yes	For a sample of 15 students, it was confirmed that in all 15 cases the courses on which they were enrolled during 2015/16 were eligible as per the guidance issued by the SFC.	-	No management action raised
6	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	A sample of 15 student applications made in the 2015/16 year was reviewed and it was confirmed that their income and expenditure information provided on their funding application had been correctly input in to the funding system and this had been subject to a means test in all 15 cases.	-	No management action raised
7	Award rates are prepopulated in the system and are paid at rates published in national policy (as adjusted by any means-testing).	Yes	Yes	A sample of 15 students receiving financial assistance through bursaries (five students), EMA (five students) and student support (five students) in the 2015/16 year was reviewed. It was confirmed that in all five bursary and in all five EMA cases the award made was in line with	-	No management action raised

				national guidelines. There is not a standard amount awarded for student support payments as the student is just required to prove their household income is less than the thresholds. In all five cases evidence was reviewed to support this and therefore, the award was made in line with national guidelines.		
8	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	<p>A sample of 15 students receiving financial assistance through bursaries (five students), EMA (five students) and student support (five students) in the 2015/16 year was reviewed and it was confirmed that none of these had received more than the maximum funding allowed.</p> <p>Discussions with the Student Funding Officer noted that the students could not be allocated more than the maximum funding allowed as they were controls within the system which prevented this from happening.</p>	-	No management action raised
9	Student bank details are input to the system from the application forms. All payments are made via BACs in the first instance. 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.	Yes	Yes	<p>A sample of 15 students receiving financial assistance in the 2015/16 year through bursaries (five students), EMA (five students) and student support (five students) was reviewed and it was confirmed that the bank details provided by the student on their application had been correctly input to the funding system, Tequios for all 15 cases.</p> <p>In one instance a student was paid a manual emergency payment on 26 November 2015, this had been raised by a Student Funding Officer</p>	-	No management action raised

				and approved by the Finance Manager and paid via corporate online banking system.		
				It was confirmed that all 15 students had been paid by BACS which were created and processed by two separate individuals.		
10	Students receiving EMA are required to complete the appropriate checkbox on the online application form to confirm they agree to the terms and conditions. The appropriate checkbox must also be completed by their parent or guardian.	Yes	Yes	<p>Testing of five students in the sample who were receiving EMA in the 2015/16 year found that three had had an online learning application retained and both the student and the parent/guardian had checked the appropriate boxes to confirm their compliance with the learning agreement.</p> <p>In two instances it was found that both students were estranged from their parents hence there was no requirement for the students to have the box checked by the parent/guardian. Evidence of this was observed and in all five cases an online application was stored in the Tequios system.</p>	-	No management action raised
Risk: Bursaries are paid to students who have not met the attendance criteria.						
11	Students must be enrolled full time and achieve 90% (bursary) and 100% (for EMA) attendance for provide adequate explanation for absences on any given week. Student support funding is not linked to attendance. Students may sign themselves off using the self-certification process for a maximum of 16 days per academic session.	Yes	Yes	<p>Testing of 10 EMA students from the 2015/16, covering 10 out of the 41 weeks found the following:</p> <ul style="list-style-type: none"> Two students had their payments stopped as their attendance for the weeks tested was below 100%. One student had subsequently withdrawn from the course. The remaining 13 students had all achieved 100% attendance 	Medium	The College makes every effort to ensure that no overpayments are made. However, there are some times each year when turnaround times are challenging. The College has robust procedures, and continue to develop efficient processes and procedures to help ensure that all bursary payments are only paid to students who have met the required attendance criteria. Payment dates are being assessed in order to help ensure checks can be performed on all student attendance prior to each payment run.

for the weeks in question and had subsequently been paid their full allowance.

Testing of 10 bursary payments found the following:

- Nine students had achieved 100% attendance and hence had subsequently been paid
- In one instance we found a student who had 25% attendance on week commencing 7th December 2015 had been paid £74 bursary money. This amount had been paid when the student had less than 90% attendance hence should not have been paid.

Discussions with the Student Funding Officer noted that on holidays and busy periods or when short staffed, only spot checks were carried out on the attendances rather than on all of the attendances generated by the system where students have failed to meet the attendance criteria.

Payments to students with less than the required percentage of attendance is non-compliance with the bursary payment conditions by SFA.

12	The College carries out checks of student attendance on every fortnightly payment run.	Yes	Yes	The attendance checks files for bursaries and student support funds were reviewed and it was confirmed that the Student Funding Officer carried out attendance checks on students with less than 90% attendance for bursaries and	-	No management action raised
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				checks on EMA students with less than 100% attendance each time a payment run was processed on a fortnightly basis. However discussions with the Student Funding Officer noted that on holidays and busy periods or when short staffed, only spot checks were carried on the attendances rather than on all of the attendances generated by the system where students have failed to meet attendance records.	
13	A weekly report is received from Student Records listing all withdrawals within that week. This is then checked to identify whether any of the students are receiving EMA, Bursary of Discretionary Funding. The funding is automatically cancelled on the system with withdrawals being completed online and the system then calculates whether a final payment is due.	Yes	Yes	<p>A sample of six student withdrawals who were receiving support funding in the 2015/16 year was reviewed. It was confirmed that in all five cases the student had received their last payment based on their last date of attendance and the attendance criteria associated with the payment. As a result, all five students had been paid the correct amount owed to them.</p> <p>There was however one case where there had been one overpayment made to a student which was eventually paid back. This had been realised by the College and an invoice had been raised to obtain a repayment of this. Evidence of this was obtained and retained and we were satisfied that in this instance the matter had been dealt with appropriately by the College.</p>	No management action raised
Risk: Use of bursary funds for childcare exceeds the maximum amount allowed and the College has not made a provision to fund the excess from the					
14	The College receive guidance from the SFC informing them they can transfer excess funds from the	Yes	Yes	The 2015/16 SFC Fund guidance was reviewed and it was confirmed that the College were able to	No management action raised

bursary allocation to cover an overspend in any other student funds area. The College inform the SFC of any transfers by detailing the transfer in the return submitted to the SFC.

transfer funds between areas.

The bursary return was obtained as at May 2016 and confirmed that all amount transferred had been reconciled by the Finance Manager.

The end-reconciliation will be reviewed in September 2016.

Risk: Audited return is not in agreement with underlying records in the College ledgers.

15	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	The reconciliations file was reviewed and for reconciliations performed in January, February and May 2016 we found that there was evidence of preparation by the Finance Assistant and review by either Senior Finance Officer or the Finance Manager.	-	No management action raised
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Risk: Limits specified on fund accounts are exceeded and the college has not made provision to fund this from its own resources.

16	The Student Funding 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. We noted an overspend in the March 2016 actuals for the support fund. However, discussions with the Finance Manager confirmed that any overspends were evened out by the use of the bursary fund which at the time of the audit had been underspent.	-	No management action required
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Risk: Alternative travel allowance is paid incorrectly.

17	Travel costs are only paid to students with disabilities or who are on placement.	Yes	Yes	A sample of five students who had received travel cost assistance during 2015/16 was tested and it was confirmed that all five students had additional support needs and therefore they were entitled to receive payment for their travel costs.	-	No management action raised
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Risk: Bursary overspends are not charged to the income and expenditure account.

18	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 at the time of the audit we noted that they were overspends and underspends in some departments however discussions with the Finance Manager confirmed that the College was expecting an overall underspend in the budget.	-	No management action raised
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Risk: Support funds are used for purposes specifically disallowed in the national policy.

19	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	<p>The College followed the National Policy documents which listed the types of funding which were available to students and the associated limits.</p> <p>A sample of 15 students receiving financial assistance through bursaries (five students), EMA (five students) and student support (five students) in the 2015/16 year was reviewed and it was confirmed that in all cases, funding had only been provided in line with the SFC guidelines.</p>	-	No management action raised
20	Departments submit requests to the Finance Manager at the beginning of each year for allocations of budget from the bursary study expense account. The Finance Manager reviews these and uses judgement to allocate budget. 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	Yes	Yes	Review of the allocations spend found the discretionary fund had an overspend amount of £2,681.98 of the allocated amount. The overspend was to be covered by the underspend in the total bursary allocations. The bursary fund had a total underspend of £243,074 as at 29 September 2016. Therefore the total bursary fund spend (which includes childcare and discretionary funds) was £1,556,926.)	-	No management action raised

on allowable items.

We confirmed through discussion that the SFO gives the Finance Officer the projections for each department. Departments are encouraged not to overspend on each department. This was because the Finance Manager confirmed that when a department want to order items, they are checked for eligibility against the National Further Education Bursary Policy Study Expense Allowance Section before they are authorised to be bought by the Finance Manager.

Risk: Childcare payments are made without due reference to the circumstances of the applicant.

21	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. This is reviewed annually and approved by the Senior Management Team (SMT)	Yes	Yes	<p>Discussions with the Finance Manager confirmed that the Student Funding Officer drafts a changes plan on a yearly basis which is shared with the SMT for proposed changes to student funding. We obtained evidence for the approach implemented during the 2015/16 year and confirmed that changes were made to ensure funding is targeted towards priority groups.</p> <p>We obtained an audit trail of emails and confirmed through discussion with the Finance Manager that the suggested changes approach was taken to the SMT and comments were sent back to the student support team for implementation.</p>	-	No management action raised
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APPENDIX A: SCOPE

Scope of the review

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 risk:

Objective of the risk 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 ledgers. 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 a provision to fund the excess from the 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.	Internal Audit

The audit has considered the following funds:

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

The following areas were reviewed:

- 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 (testing will be undertaken week commencing 5th September) ; and
- Compliance with study expense guidance.

The following limitations apply to the scope of our work:

- This audit covered only those funds listed within the scope.
- Testing has been 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
- Carina Cunningham Student, Funding Assistant

Documents reviewed as part of the audit assignment:

- National Policy documents 2015/16
- College
- Strategy

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 5 September 2015 to 22 June 2016.

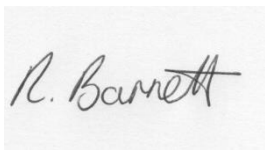
We have examined the books and records of the above college, including evidence of checks of five per cent of applications and payments, with a minimum sample size of five students, and have obtained such explanations and carried out such tests as we considered necessary.

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, appearing to read 'R. Barnett', on a light grey rectangular background.

(Rob Barnett)

Dated: October 2016

FOR FURTHER INFORMATION CONTACT

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DUMFRIES AND GALLOWAY COLLEGE

Safeguarding including the Prevent Agenda

FINAL

Internal Audit Report: 3.16/17

19 October 2017



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Debrief held	5 October 2016	Internal Audit team	Rob Barnett, Head of Internal Audit
Draft report issued	18 October 2016		Philip Church, Client Manager
Responses received	19 October 2016		Lucy Sheridan, Auditor
Final report issued	19 October 2016	Client sponsor	Jannette Brown, Vice Principal
			Karen Hunter, Finance Manager
		Distribution	Karen Hunter, Finance Manager

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1 EXECUTIVE SUMMARY

1.1 Background

An audit of safeguarding was undertaken, including a review of the awareness of the Government's 'prevent' agenda, as part of the approved internal audit periodic plan for 2016/17.

Our audit was conducted to ensure that the College has a framework in place to comply with the relevant safeguarding and prevent legislation.

The Children (Scotland) Act 1995, Children and Young People (Scotland) Act 2014 and the Protection of Vulnerable Groups (Scotland) Act 2007 set out the legal obligations that everyone in education has in relation to safeguarding and promoting the welfare of children, young people and vulnerable adults.

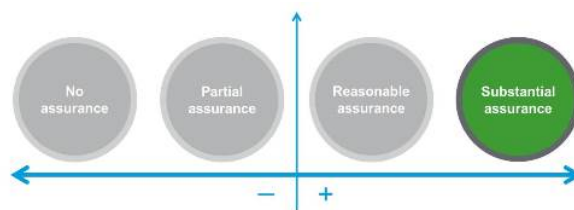
The prevent agenda is a duty in the Counter-Terrorism and Security Act 2015 on specified authorities to have due regard to the need to prevent people from being drawn into terrorism. The Government has issued Prevent Duty Guidance for further education institutions in Scotland which outlines expectations in relation to their duty.

1.2 Conclusion

Overall, our review identified that the controls in place with regards to safeguarding including the Government's prevent agenda at the College were adequately designed and complied with. Three management actions were agreed, one of these was 'medium' priority and two were 'low'. The 'medium' management action was regarding the additional checks for employees that had not been cleared before the commencement of employment.

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 risks are suitably designed, consistently applied and operating effectively.



1.3 Key findings

The key findings from this review are as follows:

- We confirmed through testing that the College has produced and are in the process of implementing a prevent action plan and strategy which is in line with the Prevent Duty Guidance: For further education institutions in Scotland. The progress of the actions within the plan was confirmed by reviewing evidence for the completed and partially completed actions.
- The prevent lead and other key members of staff, such as the Safeguarding Co-ordinator, had received WRAP (Workshop to Raise Awareness About Prevent) training and there was evidence that training for all staff was in the process of being put in place.
- The Safeguarding Policy had recently been updated to include the College's responsibilities under the prevent agenda. It was confirmed through testing a sample of employees that members of staff had received safeguarding training and the level of this was dependent on their role.

- A sample of five incidents was examined; all had been dealt with promptly.

The following findings have identified areas where improvements could be made:

- There were two occasions where the PVG (Protecting Vulnerable Groups) checks for new starters had not been cleared before the commencement of employment. Although discussions established that members of staff whose checks have not been cleared are not alone with students, there was no evidence to confirm this. If PVG checks are not carried out prior to employment and additional controls are not in place to mitigate this, students could potentially be put at risk.
- The College does not have any checks in place to vet guest speakers if any events are held. The College have recently identified this issue when the good practice checklist from the Counter Terrorism Protective Security Advice was completed.
- The College has a prayer room available for all members of staff and students to use when required, but there is not a policy or any guidelines in place for the use of this.

1.4 Additional information to support our conclusion

Risk	Control design*	Compliance with controls*	Agreed actions		
			Low	Medium	High
Prevent Duty – disruption due to threat of extremism / risk of external influences.	1 (6)	1 (6)	2	0	0
The College has a framework in place to ensure it complies with safeguarding legislation.	0 (6)	1 (6)	0	1	0
Total			2	1	0

* 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 ACTION PLAN

Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

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

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
Risk: Prevent Duty – disruption due to threat of extremism / risk of external influences.					
1	The College has a prayer room at each site which is available for staff and students to use; however, there was no written guidelines for its use.	Low	The Student Handbook and Student Induction Leaflet will be updated to include information on the use of the prayer room.	31 October 2016	Director of Organisational Development and Facilities
2	The College does not currently have a procedure in place to vet guest speakers.	Low	The results from the completion of the checklist will be reviewed and any actions added to the current Prevent Action Plan.	31 January 2017	Vice Principal, Corporate Services & Governance
Risk: The College has a framework in place to ensure it complies with safeguarding legislation.					
3	When new starters have not had their PVG checks cleared before they commence employment it was confirmed verbally with the HR Officer, Safeguarding Co-ordinator and Vice Principal that they are not left alone with students but there was no written evidence to show this.	Medium	<p>The procedure for additional controls if checks have not been returned before the employment commences will be documented.</p> <p>A check will be introduced to ensure all PVGs have been completed.</p>	31 October 2016	Director of Organisational Development and Facilities

3 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: Prevent Duty – disruption due to threat of extremism / risk of external influences						
1	<p>Safeguarding information has been communicated to the students through the Student Handbook and tutorials but there has not been any specific prevent information included within this, as the College feels this comes under safeguarding.</p> <p>Each College site has a prayer room which is available for all students and staff to use. If any student has any special requirements these are dealt with on a one by one basis due to the small amount of ethnic students on site.</p>	Yes	No	<p>All students receive a copy of the Student Handbook which details how students can access support for personal/welfare issues and also includes information on the Child Protection Policy.</p> <p>Information is also given to students within their tutorials including the location and availability of the prayer room.</p> <p>There is no policy detailing the prayer room and other faith-related facilities, including the arrangements for their use and dealing with any issues arising from the use of the facilities. The Prevent Duty Guidance states that it expects a policy to be in place.</p> <p>Without a policy in place there is no clarity over the use of the facility such as availability and dealing with any issues arising from its use.</p>	Low	<p>The Student Handbook and student induction leaflet will be updated to include information on the use of the prayer room.</p>

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
2	A risk assessment is carried out for all events carried out on site such as the hire of rooms to external parties.	No	-	<p>There is not a specific risk assessment or vetting checklist in place for guest speakers. Previously, only speakers known to the College have been used.</p> <p>The College completed a practice checklist in accordance with Counter-Terrorism Protective Security Advice guidance. The requirement for a risk assessment was highlighted as part of this process. However, an action had not been put in place to mitigate the risk at the time of the audit.</p> <p>Without checks in place to vet guest speakers and assess the risk of events held at the College potential risks will not be identified so controls will not be put in place to mitigate these.</p>	Low	The results from the completion of the checklist will be reviewed and any actions added to the current Prevent Action Plan.

Risk: The College has a framework in place to ensure it complies with safeguarding legislation.

3	<p>All new members of staff, volunteers and board members have appropriate checks carried out and these are recorded on the single central record. The checks include PVG (Protecting Vulnerable Groups) scheme membership and the College is registered as an interested party.</p> <p>If a member of staff has not received appropriate clearance at the point of</p>	Yes	No	<p>A sample of eight new starters were selected and all new starters are PVG members. Three new starters were already PVG members but initially completed the incorrect form; existing member forms have been issued to them for completion. On two occasions employment had started before the PVG form had been received. Discussions with the HR Officer established that if checks are not received back</p>	Medium	<p>The procedure for additional controls if checks have not been returned before the employment commences will be documented.</p> <p>A check will be introduced to ensure all PVGs have been completed.</p>
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Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
	employment they are accompanied at all times on site.			<p>before the employment commences the new starter is not left alone with the students. There was no evidence to show that this had taken place and it is not documented in the recruitment procedure.</p> <p>A sample of 10 existing staff, including board members, was selected and on two occasions, one board member and one work based assessor, the PVG application form had been issued to them but there no evidence on the single central register that the checks had taken place. On one occasion the record of the check was held by the Vice Principal instead as this was a board member.</p> <p>If PVG checks are not carried out prior to employment and additional controls are not in place to mitigate this students could potentially be put at risk.</p>		

APPENDIX A: SCOPE

Scope of the review

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 risk under review	Risks relevant to the scope of the review	Risk source
The College has appropriate arrangements in place to support its role under the Counter-Terrorism and Security Act 2015 as a 'specified authority'.	Prevent Duty – disruption due to threat of extremism / risk of external influences.	College's risk register
The College has a framework in place to ensure it complies with safeguarding legislation.	The College does not have a framework in place to ensure it complies with safeguarding legislation.	Internal Audit

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

Areas for consideration:

Safeguarding

- Policies and procedures are in place, and these were relevant to current legislation and available to staff.
- Designated senior members of staff that are in charge of safeguarding arrangements have been trained to the appropriate level and this is up to date.
- Staff, volunteers and governors received appropriate training on safeguarding.
- Checks are performed on staff, volunteers and governors dependant on their regular involvement with learners and how these are recorded, in a single central record.
- Additional controls are in place when appropriate clearance has not been received at the point of employment.
- Recording, monitoring and reporting of safeguarding incidents.
- Safeguarding issues and trends are reported periodically through the College's governance structure.

Prevent and British Values

- Risk assessments are completed which assess where and how students or staff may be at risk of being drawn into terrorism.
- Prevention action plans are developed and monitored to mitigate the identified risks.
- Prevent awareness training was provided to staff.
- Welfare and pastoral support are in place including policies for the use of prayer rooms and faith related activities.

- Policies and procedures in place for the management of events held on premises.
- IT policies and procedures are in place that makes specific reference to the College's statutory duty

Limitations to the scope of the audit assignment:

- We did not review compliance with the Counter-Terrorism Act.
- We did not determine whether the legislation has been fully complied with, but have established whether sufficient systems are in place to enhance the ability of the college to comply with applicable legislation.
- We did not provide a review or an opinion on individual cases to identify if appropriate or sufficient protection measures were undertaken.
- While we did consider whether the College had appropriate procedures in place for students undertaking work on employer premises however, we did not test these in practice nor did we provide assurance that they are followed in all instances.
- We did not provide assurance on the appropriateness of recruitment.
- We did not provide an opinion on the suitability of policies and procedures, only whether they covered key topics.
- We did not provide assurance over the accuracy of any employment checks obtained.
- The following areas were not included:
 - The impact that legislation has on the curriculum; this includes bullying and discrimination and associated policies.
 - We did not hold discussions with learners.
 - Health and safety, safe working practices and reporting of incidents and accidents.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit:

- Jannette Brown, Vice Principal, Corporate Services and Governance
- Shona Scott, Student Support and Guidance Manager (Safeguarding Co-ordinator)
- Stuart Clark, Student Support Team Leader (Deputy Safeguarding Co-ordinator)
- Helen Cronie, HR Officer
- Eric Dunbar, IT Manager

Documentation reviewed during the audit:

- Prevent Duty Guidance: For further education institutions in Scotland July 2015
- Prevent Action Plan, December 2015
- HM Inspection Report, April 2016
- Safeguarding Children, Young People and Adults at Risk Policy December 2015
- Safeguarding Children, Young People and Adults at Risk Procedure September 2016
- ICT Acceptable Use Policy, November 2013
- ICT Security Policy, November 2013
- Student Handbook, 2016/17
- Board minutes
- Executive Team minutes
- Serious Organised Crime and Counter Terrorism meeting minutes

FOR FURTHER INFORMATION CONTACT

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DUMFRIES AND GALLOWAY COLLEGE

Marketing and Communication

FINAL

Internal Audit Report: 4.16/17

1 November 2016



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Debrief held	12 October 2016	Internal Audit team	Rob Barnett, Head of Internal Audit
Draft report issued	24 October 2016		Philip Church, Client Manager
Revised draft issued	1 November 2016		Eddie Ndhlovu, Senior Auditor
Responses received	1 November 2016		
Final report issued	1 November 2016	Client sponsor	Jannette Brown, Vice Principal
			Karen Hunter, Finance Manager
		Distribution	Karen Hunter, Finance Manager

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1 EXECUTIVE SUMMARY

1.1 Background

We have completed an audit of marketing and communication for the College as per the agreed internal audit plan 2016/17.

The College has in place an in-house Marketing team which comprises of three team members including the Marketing and Admissions Manager and two Marketing Officers. The team receive various requests through the Technical Services Request (TSR) system. The system is used to track requests and is assigned to any of the Marketing team to complete. Various departments within the College use the TSR system to request the purchase of marketing information, advertising across the campus, events, etc.

1.2 Conclusion

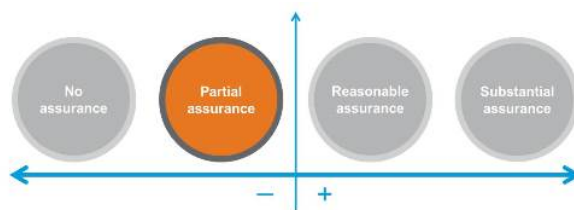
Our internal has highlighted areas that the College can improve to maintain its position in the sector through effective marketing and communication. We have identified two 'high' and two 'medium' actions which are listed below and two 'low' management actions detailed in section three of this report findings of this report:

- Ensuring that the College has a Marketing Strategy that has been subject to scrutiny and approval by the Executive team;
- Review of the staffing costs associated with the Marketing team;
- Formulation of a social media strategy and review of current technologies; and
- Performance of a yearly student conversion analysis.

Internal Audit Opinion:

Taking account of the issues identified, whilst the Board can take **partial assurance** that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied.

Action is needed to strengthen the control framework to ensure this area is effectively managed.



1.3 Key findings

Our review has found the following good areas:

- The College has business and school links within the area which enables both to be involved in college activities. This enables students to become aware of the courses that the College offers and subsequently ensuring that the students choose to study at the College.
- The College undertakes various events to market courses on offer. Evaluation forms are distributed and reported to the Executive team to ensure that the objective has been achieved.

However, we have raised four management actions categorised as 'high' and 'medium' to improve the marketing and communication of the College as detailed below:

- Through discussion and review of the strategy, we found that the College's Marketing Strategy had not been subject to Executive team scrutiny and approval.
- A Value for Money assessment of the Marketing team had been undertaken.
- We found that the College did not have a stand-alone social media strategy in place in order to keep up to date with changing communication methods.
- We found that the College had not performed a student conversion analysis based on events held. The last time this had been performed was 2005.

1.4 Additional information to support our conclusion

Area	Control design*	Compliance with controls*	Agreed actions		
			Low	Medium	High
Marketing and Communication	0 (8)	6 (8)	2	2	2
Total			2	2	2

* 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 ACTION PLAN

Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may, with a high degree of certainty, lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

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

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
Area: Marketing and Communication					
1	We found that the College does not have a Marketing Strategy. The Marketing team work from an operational plan for that area.	High	The College will develop a Marketing Strategy.	March 2017	Carol Turnbull, Principal
2	We noted that the College was spending over £155,000 in marketing costs including salaries.	High	When developing its Marketing Strategy the College should consider the prospect of outsourcing its Marketing team in order to keep abreast of latest marketing techniques and to achieve efficiencies and value for public money.	March 2017	Carol Turnbull, Principal
3	We found four instances when the TSR requests had not been completed within the required timescale.	Low	The College will ensure systems and procedures are in place to monitor completion of requests within time required.	January 2017	Sandra Norris, Marketing and Admissions Manager

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
4	We found through observation that the new College screens were not strategically placed around the campus and the newsletters were not available on the College's website.	Low	<p>The College will review the locations and content of the digital screens to ensure that they are strategically placed around the campus.</p> <p>The College will also ensure that newsletters are available to potential students in order to increase awareness of the College's activities.</p>	November 2016	Sandra Norris, Marketing and Admissions Manager
5	We found that the College did not have a stand-alone social media strategy in place in order to keep up to date with changing communication methods.	Medium	<p>The College will include the use of social media in its Marketing Strategy.</p> <p>The College will meet with the student association in order to formulate a social media strategy in order to use effective means of communication for potential students and current ones alike.</p> <p>The College will perform an analysis of the technologies it has in place in order to identify new opportunities of improvement, such as, mobile app course applications.</p> <p>The College will undertake reviews of its website to ensure that it reflects the same standards as other further education colleges.</p>	December 2016	Sandra Norris, Marketing and Admissions Manager
7	We found that the College had not performed a student conversion analysis based on events held. The last time this had been performed was 2005.	Medium	The College will perform a yearly student conversion analysis to ensure that it remains competitive and attractive to future students.	June 2017	Sandra Norris, Marketing and Admissions Manager

3 DETAILED FINDINGS

This report has been prepared by exception. Therefore, we have included in this section, only those areas 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
Area: Marketing and Communication						
1	<p>The College has in place a Marketing Strategy which supports the market position of the College. The strategy details activities focussed on supporting and promoting the corporate aims, objectives and values as set out in overall corporate plan of the College.</p> <p>The strategy details the yearly plan and key event dates for the duration of the year.</p>	Yes	No	<p>Review of the Marketing Strategy found this was in place and managed by the Marketing team. We found that the strategy was a working document which was annotated and reviewed on a yearly basis by the Marketing and Admissions Manager. We however noted that the current Marketing Strategy had not been formally approved by the Executive team.</p> <p>There is therefore a risk that the strategy has not been subject to scrutiny by the Executive team leading to the non-fulfilment of the College's objectives.</p>	High	The College will develop a Marketing Strategy.
2	<p>The College Marketing Strategy has in place key dates for the delivery of events. Marketing information must be produced in advance of the event and is detailed in the plan. The plan is monitored collectively by the Marketing team. Every year the Finance Manager undertakes budget meetings where budget information is shared and a budget is drawn for the events in place. Every month general budget information is shared with heads of faculty. Performance</p>	Yes	No	<p>We found through discussion with the Marketing and Admissions Manager that event key dates are not formally monitored. However we found that in order to ensure that key event information was shared in a timely manner a TSR was raised by the Marketing and Admissions Manager for the Marketing team as a reminder.</p> <p>We also found that the Marketing team had a marketing planner</p>	High	When developing its Marketing Strategy the College should consider the prospect of outsourcing its Marketing team in order to keep abreast of latest marketing techniques and to achieve efficiencies and value for public money.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
	of the budget is monitored by Finance to ensure that events delivered within budgets.			<p>which gave an overview of the forthcoming college events. We found that there was evidence that events during the 2015/16 year had all been delivered within the key dates.</p> <p>Review of the budget spends identified marketing salaries and associated employees costs were £78,117. The marketing spend for the year which included printing costs, consumables and advertising were £77,064 for 2015/16. The total costs for the marketing team for the year were £155,181.</p> <p>The costs for marketing were significant and could potentially be reduced by the use of an outsourced marketing function. An outsourced marketing function may bring value for money, reduce costs, increase efficiency and introduce new ideas of marketing across the College.</p>		
3	The production of leaflets, prospectus and any other information is produced by the Marketing team through the Technical Services Request (TSR). The TSR works the same way as an IT service desk request. Depending on the need in each department, requests are sent through to marketing which detail the information required. Information is	Yes	No	<p>Testing of 10 TSR request found the following:</p> <ul style="list-style-type: none"> Six requests had been completed within the TSR required deadline. The material produced had been undertaken by the Marketing team. 	Low	The College will ensure systems and procedures are in place to monitor completion of requests within time required.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
	produced which is done in line with the College's branding. This is approved by the Marketing and Admissions Manager.			<ul style="list-style-type: none"> We found evidence of the material produced was in line the College's branding. <p>However, we found that four TSR requests had not been completed within the required timeframe. The requests were business cards (two instances): promotional information and a funding booklet.</p> <p>There is therefore a risk that TSR requests are not completed in a timely manner resulting in promotional material and advertisements not being sent out in a timely manner.</p>		
4	<p>The College has a number of internal communication strategies which include:</p> <ul style="list-style-type: none"> Leaflets dotted across the site; Digital screens with a number of information; Student association; and Quarterly internal newsletters. 	Yes	No	<p>Discussions with the Marketing and Admissions Manager found that the marketing strategies around the College were geared towards student retention. We found that the College has recently acquired three digital screens which are situated on the campus.</p> <p>The message board is operated by the Marketing team using a digital box.</p> <p>Our observations of the locations of the digital screens found that they were not best placed in order to capture the attention of students. Students were likely to walk past the screens and not be captured by the messages on the screens. The</p>	Low	<p>The College will review the locations and content of the digital screens to ensure that they are strategically placed around the campus.</p> <p>The College will also ensure that newsletters are available to potential students in order to increase awareness of the College's activities.</p>

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
				<p>screens needed to be placed in areas of high student activity such as the canteen and the coffee shop in order capture a wider audience.</p> <p>There is a risk that the College is failing to inform current students of funding information, events and other courses that they can undertake at the College.</p>		
5	The College's Social Media Plan is driven by the current trends and number of media outlets which potential students utilise. The Marketing team use views obtained from the student president and body to inform the College's approach.	Yes	No	<p>We found that the College has in place a Facebook account, Twitter account and a YouTube account which are used to inform potential new students and businesses about the courses available at the College.</p> <p>We however found that although social media was included in the overarching marketing strategy, there was currently no set strategy which detailed the College's plan for the use of specific media outlets which are well researched and effective in marketing.</p> <p>We also found that the College did not have an Instagram, LinkedIn or Google+ accounts. Review of the Facebook and twitter accounts found that they were updated regularly; however, the YouTube account had its last posted video eight months ago as at the time of the audit.</p>	Medium	<p>The College will include the use of social media in its Marketing Strategy.</p> <p>The College will meet with the student association in order to formulate a social media strategy in order to use effective means of communication for potential students and current ones alike.</p> <p>The College will perform an analysis of the technologies it has in place in order to identify new opportunities of improvement, such as, mobile app course applications.</p> <p>The College will undertake reviews of its website to ensure that it reflects the same standards as other further education colleges.</p>

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
				<p>We found through discussion with the Marketing and Admissions Manager that the College was in the process of meeting with the student association in order to identify strategies of promoting the College.</p> <p>There is a risk that the College does not have a strategy which details the use of several media streams for marketing and communication. This would lead to students, both current and aspiring, not being able to fully engage with the College.</p>		
6	<p>The College was currently in the process of refreshing its mobile phone application which would be ideal for students to apply for courses and funding.</p> <p>Currently, the College advertises its annual prospectus online only. This is due to the availability of computers for student and reduced demand along with associated costs of hard copy prospectus.</p>	Yes	No	<p>We found that the College uses its own in-house Marketing team for all marketing purposes. The team design the marketing products and items which are sent off site to a printing company.</p> <p>We also found that the mobile application used by the College had not been updated since 2014 and had only received 100 downloads on the android platform. We also found that the website did not contain events information and did not seem to be updated to reflect upcoming events at the College. For instance, the College was due to have an open evening for aspiring students in November 2016; however, there was no evidence that this was being</p>	-	See management action five

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
				<p>advertised to the public yet.</p> <p>There is therefore a lack of a strategy in place for reviewing current technologies and ensuring that the College uses up to date communication to engage with wider audiences.</p>		
7	<p>Marketing events such as the open day are undertaken twice every year in August and November. The College advertises its open days on buses, online, Facebook, Twitter, etc.</p> <p>After every open evening, questionnaires are sent to the teachers to give feedback. Furthermore, students are encouraged to give feedback through teachers about the events.</p> <p>Partnership events held during the year are evaluated through the schools involved. The information forms part of the evaluation reports that are prepared by the Vice Principal - Curriculum and shared with Board and the Head of Faculty group meetings. Information is gathered on the impact of the events and how this can be improved in future events.</p>	Yes	No	<p>Discussions with Liaison Officer found that evaluation forms were supplied to teachers for events such as the schools competition and gender imbalance. The information was collected and used by the event organisers to report to the Executive team.</p> <p>There was evidence of evaluation forms and a report submitted to the Board.</p> <p>However through discussion with the Marketing and Admissions Manager we found that the College had not performed a student conversion analysis based on events held. The last time this had been performed was 2005.</p> <p>There is a risk that trends are not analysed to allow for marketing activity to be amended and meet the needs of the target audience.</p>	Medium	The College will perform a yearly student conversion analysis to ensure that it remains competitive and attractive to future students.

APPENDIX A: SCOPE

Scope of the review

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 areas:

Objective of the area under review

The objective was to ensure that the College maintained its position in the FE sector through effective marketing and promotion.

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

- Review of the College's Marketing Strategy including delivery of events in accordance with agreed timetables and budgets.
- The production of key materials, such as the College's prospectus and parental information, is reviewed and approved to reflect the College's branding.
- How partnerships are identified and established through marketing incentives.
- Review of internal communication and how this reflects the College's brand and other marketing activities.
- Assessment of the College's social media strategy and how this is informed by social media trends.
- Review of current and emerging technologies, social media opportunities and how they have been identified and used to target exist and new learners.
- Marketing and promotion events are monitored, recorded and evaluated to determine the impact of the key events.

The following limitations apply to the scope of our work:

- We have not reviewed the Marketing Strategy for adequacy.
- We have not confirmed that all marketing channels have been explored.
- We have not confirmed student numbers will be achieved.
- We have not reviewed the accuracy of reporting on conversion rates to the relevant committee or Board.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit:

- Karen Hunter, Finance Manager
- Sandra Norris, Marketing and Admissions Manager
- Andy Wright, Vice Principal- Curriculum
- John MaGill, Business & Community Liaison Officer
- Alison Jardine, Business Development Community Services Manager
- Lisa Walker, Marketing Administration Officer

Documentation reviewed during the audit:

- Dumfries and Galloway Prospectus
- Marketing strategy

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DUMFRIES AND GALLOWAY COLLEGE

Internal Audit Progress Report

Audit Committee

21st November 2016

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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.

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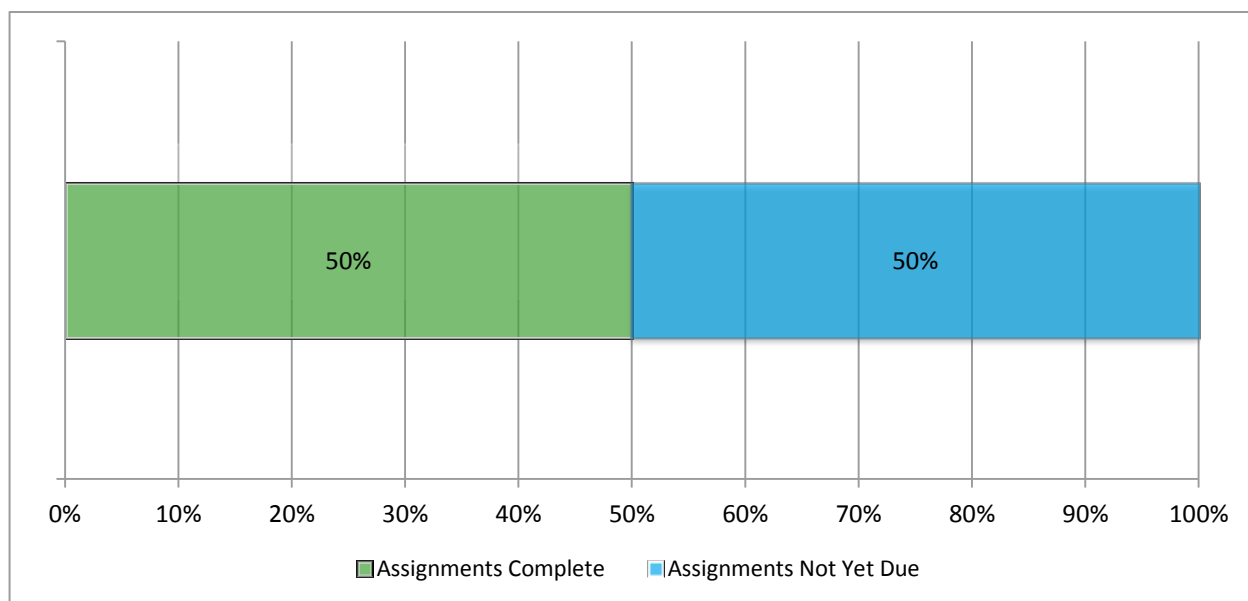
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1 INTRODUCTION

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

The chart below provides an overview of current progress against the plan.



2 REPORTS CONSIDERED AT THIS AUDIT COMMITTEE

This table informs of the audit assignments that have been completed and summarises our conclusion and key findings since the last Audit held.

Assignments	Status	Opinion issued	Actions agreed		
			L	M	H
Student Support Fund	Final	Substantial	0	1	0
Student Activity Data	Final	Substantial	0	0	0
Safeguarding including the Prevent Agenda	Final	Substantial	2	1	0
Marketing and Communication	Final	Partial	2	2	2

2.1 Impact of findings to date

Our reviews of the College's **Student Support Fund**, **Student Activity Data** and **Safeguarding including the Prevent Agenda** identified the organisation can take **positive assurance** that the controls upon which it relies on to manage the identified risk or area were suitably designed, consistently applied and operating effectively. The key 'medium' priority management actions agreed for each review are as follows:



- Student Support Fund – the report contained one 'medium' priority management action that related to the payment of monies to a student who had not achieved minimum attendance thresholds.
- Safeguarding including the Prevent Agenda – the report contained one 'medium' priority management action that related to a lack of evidence to support supervision of staff when their Protecting Vulnerable Groups clearance had not been received prior to commencement of employment.

Our review of **Marketing and Communication** concluded with a partial assurance opinion and action is required to strengthen the control framework to ensure the area is effectively managed. The key high priority management actions for the review are as follows:



- A defined marketing strategy was not in place; and
- The outsourcing of the market department had not been considered by the College.

3 LOOKING AHEAD

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

4 OTHER MATTERS

4.1 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
Final report issued within three days of management response	Three days	One day (average)	Turnover rate of staff	>50%
			Response time for all general enquiries for assistance	67%
% of High & Medium recommendations followed up	100%	Follow up review planned for February	Response for emergencies and potential fraud	<10%
				2 working days
				Yes
				N/A

APPENDIX A: INTERNAL AUDIT ASSIGNMENTS COMPLETED TO DATE

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

FOR FURTHER INFORMATION CONTACT

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FE SECTOR UPDATE

Set out below is an update on regulatory matters and related sector developments which may be of relevance/interest to the governors and management.

VAT – Impact on the Wakefield appeal

Overview

VAT relief available on the construction of a new 'relevant charitable purpose' building

A charity has been denied VAT zero-rated relief for the construction of a new building. The Court of Appeal has determined that, it is not a charity's objectives which will determine such VAT reliefs, but whether fees paid by users fall within the scope of VAT.

The Court of Appeal has allowed HMRC's appeal in the Longridge On the Thames case which has particular relevance to the amount of VAT relief available on the construction of a new building, with major implications throughout the charity and further education sector. For further education colleges reliant on a successful appeal by Wakefield College to warrant zero-rated building work, this decision is likely to influence the ultimate decision in Wakefield's appeal.

In setting aside the favourable decision of the earlier (First-tier and Upper) tax tribunals, the Court of Appeal has determined that below cost fees charged by the charity to cover operational costs (having taken account of grants, donations and by the work of unpaid volunteers) was a business activity falling within the scope of VAT ('economic activity' in VAT speak).

Consequently, as a result of this 'economic activity', the charity could not be afforded VAT zero-rated relief on the construction of a new building.

Of particular note is the Court of Appeal's finding that a charitable (or non-profit making) activity can be an economic activity falling within the scope of VAT, and crucially, that a charity's predominant concern of furthering its charitable objectives by the charging of fees is a VAT economic activity and VAT relief on construction services is unavailable.

The Court of Appeal is effectively stating that, in determining whether a charity's activity falls within the scope of VAT, it is not the predominant concern of the charity that needs to be assessed, but the predominant concern of the activity generating the income.

Therefore, if there is a direct link between the fee charged and services provided by the charity, this is an economic activity falling within the scope of VAT even if the fee charged is at a concessionary rate.

The immediate impact of this decision is that charities considered to be undertaking an economic activity will not be able to claim VAT relief on the construction of buildings.

In appropriate circumstances charities need to assess the merits of making mandatory charges if they are contemplating the construction of a new building.

Post 16 Skills Plan

Overview

The government has announced details of its plans for further education and skills. The 'post-16 skills plan' accepts every recommendation made in the independent report into technical education conducted by Lord Sainsbury.

The Post 16 Skills Plan was issued by the government in July 2016 following recommendations in the Report of the Independent Panel on Technical Education, the Panel having been chaired by Lord Sainsbury.

In summary, it gives two clear pathways at age 16, either technical or academic. The technical route is designed to lead to employment and apprenticeships, the academic route to higher education.

Some of the other key proposals made in the plan include:

- a major reform of the 'technical option' for school leavers;
- the technical option will offer both college and employment based education and training;
- employers in collaboration with education experts will set the standard in technical education;

Post 16 Skills Plan

	<ul style="list-style-type: none"> • 'bridging' courses will be implemented to ensure learners can switch between the technical and academic routes; • there will be a common framework across 15 routes and all technical education will comprise both college based and employment based education; • there will be a review on how to improve the study of maths to age 18, which will also include the feasibility of maths becoming mandatory for all students up to the age of 18; • local areas will decide which of the 15 routes will be focused on to meet the demands of the local economy; and • an admission that the scale of these reforms will pose 'leadership and governance challenges', with the move to an employer-led system suggesting the need for governors with business skills. <p>A roadmap is provided in the plan which signals the pace at which these reforms will be implemented in the sector, with teaching in some of the new routes planned to begin in September 2020.</p>
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SFA annual plan 2016/17

<p>Overview</p> <p>The Skills Funding Agency (SFA) has published its business plan for 2016/17.</p> <p>The SFA's people plan will focus on:</p> <ul style="list-style-type: none"> • improving staff engagement; • developing capability and skills; • the right resource, at the right time; • a diverse and high performing workforce. 	<p>The plan focuses on six priorities for the SFA: the key objectives being:</p> <ul style="list-style-type: none"> • apprenticeship funding: "Maintain the current apprenticeship funding system whilst developing the digital apprenticeship service to enable employers to control funding and recruit high-quality apprentices." • a simplified funding system: "Deliver simplified national adult education funding systems (non-apprenticeship) to support government policy." • high-quality skills opportunities: "Champion the opportunities for learners and employers to engage in high-quality apprenticeship, traineeship and skills opportunities." • intervention: "Deliver on intervention cases alongside our wider work to increase college sector resilience." • area reviews: "Support and monitor the implementation of area reviews including securing solutions for long-term failing colleges." • shared services. "Deliver shared services, through FAS²T, that enable effective financial, data and digital system management (together with the Education Funding Agency)."
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Inspection regime

<p>Overview</p> <p>Ofsted is tightening up its inspection regime in light of the increasing numbers of colleges merging.</p>	<p>In the latest version of Ofsted's inspection guidance for further education and skills providers there are a number of changes including:</p> <ul style="list-style-type: none"> • clarity that newly merged colleges will have a full inspection within three years of the merger, with no grading being awarded until this inspection; • any 16-19 academy/free schools that are re-brokered will be treated as a new provider for purpose of inspection; • any newly merged college or provider deemed new may receive a monitoring visit to assess risk;
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Inspection regime

	<ul style="list-style-type: none"> • clarification that sub-contractors may be subject to inspection themselves; and • clarification on inspector expectations around lesson plans and planning documents. <p>The guidance clarifies that all college mergers, regardless of type, will be viewed as 'new' colleges. This, combined with the specific comment that "a newly merged college will not carry forward any inspection grades from predecessor colleges", may put a different light on some of the proposed mergers in the sector.</p>
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BREXIT considerations and potential risks

<p>Overview</p> <p>Although it is unlikely that the UK will formally exit the EU for another two years, there is some uncertainty for EEA nationals currently working or studying in the UK and those who wish to come to the UK for the purpose of work or study.</p> <p>It is an uncertain time for universities and colleges with respect to EU funding, collaboration with EU researchers, and the impact on its market share of the EU student market (bearing in mind EU students may incur fees for the first time in respect of colleges or higher "international student" fees in respect of HE and potential visa restrictions after the official UK exit).</p> <p>There will be particular uncertainty with regard to the demand from students in EU countries to study in the UK. At present, for FE, these students are regarded in a similar way to home students and universities can recruit students from within the EU without restriction. Placing immigration restrictions on these students could hinder demand and related funding, although both FE and HE would be free to charge appropriate fees to those students.</p>	<p>Immigration and international students</p> <p>The type of immigration system the UK will end up with in relation to EU nationals depends on whether:</p> <ul style="list-style-type: none"> • The UK leaves the EU and the single market, which may mean that EU/EEA nationals will have to comply with domestic UK immigration laws (ie Tier 4 or an alternative bespoke system); or • The UK leaves the EU but signs up to the EEA option and stays in the single market. In this case, free movement for EEA nationals could continue and EU nationals' right to study in the UK will remain. <p>If Tier 4 is to include EU/EEA nationals, then education providers will need to make sure they have enough resources in place to deal with the extra regulation that may be involved in recruiting EU/EEA nationals.</p> <p>This is, of course, assuming that the current numbers of EU/EEA nationals coming to the UK to study is not affected by the introduction of immigration restrictions.</p> <p>Student finance - HE</p> <p>The Student Loans Company (SLC) issued a statement on 27 June confirming that EU students who are currently in receipt of Higher Education SLC funding will continue to get their funding until the end of their course.</p> <p>The rules applying to EU nationals, or their family members, who have applied for a place at university from August 2016 to study a course which attracts student support, are unchanged. The SLC will assess these applications against existing eligibility criteria, and will provide loans and/or grants in the normal way. EU nationals, or their family members, who are assessed as eligible to receive grants and/or loans from the SLC will then be eligible for the duration of their study on that course.</p> <p>EU funding</p> <p>The sector receives significant ESF grants that may be at risk going forward. However, existing EU-funded programmes will continue in accordance with their terms, at least until a formal exit. It is not yet clear what will happen to programmes that are still ongoing on the day we leave.</p> <p>Employees</p> <p>Leaving the EU may reduce the number of academic staff from elsewhere in the EU who want to, and can, work here.</p> <p>Regulatory changes</p> <p>Education providers will also need to adapt their operations to new regulations as employers. This includes potential changes to UK employment law (such as Working Time Regulations 1998 and Agency Worker Regulations 2010) or to public sector procurement (which is</p>
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BREXIT considerations and potential risks

	currently subject to EU law). General decisions on tax policy (e.g. VAT) may also have implications for education providers.
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NAO - Value in the apprenticeship program

Overview The National Audit Office (NAO) has warned of possible 'market abuse' as the market for apprenticeships changes, whilst calling for the Department for Education (DfE) to improve the way it handles key risks.	<p>The NAO makes a number of recommendations for the DfE moving forward including:</p> <ul style="list-style-type: none">• set out short-term KPI's to measure the programme's success beyond the 3million new starts announced;• ensuring that the timescales for implementing the 'trailblazers standards target' is kept reasonable; and• calling on the DfE to set out success criteria for the reformed apprenticeship package. <p>Recommendations also included monitoring behavioural risks that can be expected to be considered as part of any assurance regime introduced. These risk include:</p> <ul style="list-style-type: none">• collusion between employer and provider to share any levy fund;• take on apprentices as cheap labour with no intention of retaining them;• artificially route other forms of training into an apprenticeship;• use of sub-standard assessors or assessors lowering their standards to deliver more work.
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Proposal for a sector insolvency regime

Overview Currently, the legal regime for colleges does not make clear how insolvent institutions should be dealt with in the new world post area review. As part of the process to establish colleges that are able to operate autonomously, a legal framework is needed within which colleges are able to manage their finances independently and flexibly, with opportunities to restructure and provide protections for learners. Any framework will need to make provision for corporations to exit the market when appropriate and without undue detriment to learners, creditors and taxpayers. The government has therefore issued a consultation to develop an insolvency regime for FE and sixth form colleges.	<p>The consultation closed on 5 August and no further information has been published at the date of writing.</p> <p>Key points to note are:</p> <ul style="list-style-type: none">• a Special Administration Regime (SAR) would be developed with the objective to:<ul style="list-style-type: none">○ avoid or minimise disruption to the studies of the existing student of the further education body as a whole; and○ ensure that it becomes unnecessary for the body to remain in education administration for that purpose• the SAR would provide more time than in normal insolvency procedures to allow for placing learners, rather than focusing only on creditors; <p>A particular concern is how the potentially conflicting objectives of the needs of learners and the rights of creditors would be dealt with.</p> <p>Another practical concern is how commercial lenders to the sector would react, where this new regime would place them in terms of recovering debt and potentially affecting the terms (and period) under which they are prepared to lend to colleges.</p> <p>Governors' liabilities and duties are also considered as part of the consultation. The proposal is not looking to extend governors liabilities beyond that already existing as part of charity legislation.</p> <ul style="list-style-type: none">• As charity trustees, governors have a duty to act with reasonable care and skill. They must act responsibly, reasonably and honestly; should put appropriate procedures and safeguards in place - such as ensuring sufficient information is available before taking a decision, keeping full records of all decisions, and taking appropriate independent advice - and take reasonable steps to ensure that these are followed. Otherwise, they risk making the charity vulnerable to loss and of being in breach of their duty.
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Proposal for a sector insolvency regime

	<ul style="list-style-type: none"> Trustees can be held personally liable to their charity for any financial loss they cause or help to cause by their wrongful action. This applies to any type of charity whatever its legal form. However, charity law protects trustees who have acted honestly and reasonably from personal liability. There is no legal protection for trustees of any charity, no matter what their legal form, where they have acted dishonestly, negligently or recklessly. <p>The proposals intend to follow the company insolvency route and therefore apply the provisions related to directors' responsibilities to college governors. It may be perceived that this move would extend governors liability to cover fraudulent and wrongful trading.</p> <p>In practice governors would be able substantially to mitigate their risk of wrongful trading liability by acting in line with their duties as charitable trustees; including respecting good practice, following proper process, ensuring appropriate professional advice is available before taking key decisions, and recording the basis of decisions.</p>
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Managing the risk of fraud

Overview Further to warnings in recent months about the risk of fraud, a new guide to help charities proactively counter fraud has been launched by the Charity Finance Group and PKF Littlejohn.	<p>It is designed to help finance professionals and trustees to identify areas for improvement when building their resilience to fraud, and moving towards actively managing the risk of fraud.</p> <p>The document is called 'Countering Fraud: A guide for the UK charity sector' and can be downloaded from the Charity Finance Group's publications page.</p> <p>The guide follows the release of figures which were announced in May's Annual Fraud Indicator (AFI), which show that the cost of fraud to the charity sector has increased by 73 per cent from £1.1bn in 2013 to £1.9bn.</p> <p>Fraud and cybercrime in particular is becoming more prevalent and all organisations need to continually review its controls and procedures to mitigate the risk of attack.</p> <p>Good practice can include the maintenance of a fraud log to better understand the challenges to plan/strengthen controls through to testing of internal procedures by instigating a mock email attack that would test your team's adherence to procedures.</p>
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Off payroll workers – significant changes in compliance responsibilities

Overview HMRC recently issued a technical note "Off payroll working in the public sector: reforming the intermediaries legislation". HMRC are proposing that public sector bodies will become responsible for deciding whether or not the intermediaries legislation (commonly known as "IR35") should apply in circumstances where the services of an individual are engaged via a Personal Services Company ("PSC").	<p>All public sector bodies, including universities and colleges, will need to be well prepared for the introduction of the new rules in April 2017. Colleges will need to be aware of the increase in the cost of engaging individuals via PSCs as a result of a shift in the employer's NIC costs from the PSC to the college itself where applicable. Precise details of how the proposed rules will work in practice will be subject to consultation and refinement before implementation.</p> <p>The extent this is applicable to colleges is unclear but they will still need to prepare for implementation that is likely to include:</p> <ul style="list-style-type: none"> initial identification of PSCs engagements, and once identified, consider whether the IR35 rules apply and check these arrangements (say every six months) where initial findings are that IR35 do not apply, to ensure that this decision remains relevant, should services continue to be provided by PSCs;
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Off payroll workers – significant changes in compliance responsibilities

Should it be concluded that the IR35 rules apply, organisations will be responsible for deducting tax and NIC from any payments made to the PSC and for accounting for this to HMRC via Real Time Information.	<ul style="list-style-type: none"> understand what the cost implications are of doing nothing and paying via payroll; workforce review - is it appropriate/cost effective to be engaging with PSCs or can the services being provided be done by existing/new staff. <p>Once this initial phase has been completed, consideration will need to be given to contractual arrangements in terms of future use of PSCs, and whether re-organisation of the roles performed by PSCs can bring cost savings and efficiency benefits, in addition to ongoing tax assurance and compliance.</p>
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Departmental changes

Overview The DfE has taken on responsibility for higher and further education policy as well as apprenticeship and wider skills policy from BIS.	<p>The DfE's responsibility for education and skills previously cut off when learners reached the age of 18 with BIS responsible thereafter. However, in July 2016 the government confirmed that the DfE would take on the responsibility for higher and further education policy as well as apprenticeship and wider skills policy from BIS.</p> <p>This followed the introduction in April 2016 of a new Funding Agencies Shared Service Team (FAS2T), which brings together the finance, data and assurance teams from the SFA and EFA.</p>
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Cybercrime reminder - Ransomware

Overview Like most computer viruses, ransomware often arrives in the form of a phishing email, spam, or some other form of nefarious email. You then click a link or open an attachment – the virus then sets to work encrypting your files. Once the computer is effectively locked down, it demands a fee for the files to be returned. There is usually a time limit to pay up, after which the ransom increases.	What can you do? It is actually very simple: be vigilant and use your common sense. Do not open unsolicited emails, or where you don't recognise the sender's email address – if it happened to be genuine the sender will follow up with a call or a second email that's likely to be more easily identifiable. Do not click on internet links within emails unless you are 100 per cent sure you know where it is taking you, that it's from a trustworthy source and that you are expecting there to be a website link in the first place. Remember to hover over hyperlinks in emails to verify that the address being displayed whilst hovering matches up to the apparent address of the link itself.
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Apprenticeships

Overview The latest proposals for Apprenticeships funding in England were issued for consultation in August 2016. The consultation ended on 5 September and, at the time of writing, the outcome is still awaited.	<p>Some of the main proposals in the consultation were:</p> <ul style="list-style-type: none"> Only employers with an annual payroll bill over £3m will pay the levy Other employers will only pay 10% of the cost of an apprenticeship, except: <ul style="list-style-type: none"> employers with fewer than 50 employees will not have to pay for the cost of training a 16-18 year old apprentice or for a 19-24 year old with either an education, health and care plan or who has been in local authority care. Levy paying employers to receive a 10% monthly top up and, where they have insufficient funds in their levy account, will have 90% of their apprenticeship cost of training subsidised.
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Apprenticeships

	<ul style="list-style-type: none">• All apprenticeship frameworks and standards starts from April 2017 will be funded in one of 15 bands. The bands have upper limits for funding, ranging from £1,500 to £27,000.• Consideration being given to whether transfer of part of an employer's funds to another employer will be allowed
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Area reviews

	<p>The area review process continues, with waves 4 and 5 due to commence before the end of 2016. Whilst final meetings have been held the reviews in waves 1 and 2, there has been no formal announcement of recommendations.</p> <p>It is, however, clear from our work in the sector that a number of options are being pursued by colleges with, for example, due diligence underway for mergers and some 6th form colleges pursuing conversion to academy status.</p> <p>Where a change of structure is being proposed, early engagement with all key stakeholders, including but not limited to pension funds, bankers and the transaction unit, remains vital to the success.</p>
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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 The Report

- 2.1 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 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 11 strategic risks, three of which are rated 12 or above.
- 2.3 At this time there is no change to risk no4 'unable to achieve credit (activity) target'. However, further strike action by UNISON members may impact negatively on early retention.

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 2016-17 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.	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 support from Scottish College Foundation to support College's continuing development. SFC Guidance on Depreciation and Deficits	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 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	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
6	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 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

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		
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. 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.	EMT