

Audit Committee

Tuesday 11 March 2014

12.30 pm

Room 2009

A G E N D A

- 1 Apologies for Absence
- 2 Declaration of Interest
- 3 Minute of Meeting of 30 September 2013 (attached)
- 4 Matters Arising

Standing Items

- 5 Internal Audit Reports
 - 5.1 Value for Money
 - 5.1.1 Open Learning (attached)
 - 5.2 Follow Up (attached)
 - 5.2.1 Network Security
 - 5.2.2 General Ledger
 - 5.2.3 Risk Maturity
 - 5.2.4 VFM - Transport
 - 5.2.5 Business Continuity Planning
 - 5.3 Income and Debtors (attached)
 - 5.4 Procurement and Payments (attached)
 - 5.5 IA Progress Report (attached)
- 6 ONS Reclassification of FE Colleges (verbal update)
 - 6.1 External Audit Meeting - 11 February 2014 (verbal update)
- 7 Institutional Sustainability (attached)
- 8 Strategic Risk Register (attached)

Business

- 9 External Audit Report (attached)
- 10 Any Other Business
- 11 Date and Time of Next Meeting

Board of Management

Minute of the Meeting of the Audit Committee of the Board of Management of Dumfries and Galloway College held on Tuesday 11 March 2014 at 12.30 pm in Room 2009

Present: Hugh Carr (Chair)
Delia Holland
Karen McGillivray Fallis

In attendance Carol Turnbull, Principal
Karen Hunter, Finance Manager
Jannette Brown, Assistant Principal and Clerk to the Board
Brian Johnstone
Stuart Martin
Lindsay-Anne Straughton, Baker Tilly
Gary Devlin, Grant Thornton
Angela Pieri, Grant Thornton
Susan Sutherland, PA to the Principal

1 Apologies

Apologies for absence were intimated on behalf of Sandy Burgess.

2 Declaration of Interest

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

3 Minute of Previous Meeting

The Minute of the Audit Committee held on 30 September 2013 was approved.

4 Matters Arising

None.

Standing Items

5 SI: Internal Audit Reports

Lindsay-Anne Straughton, on behalf of Baker Tilly, Internal Auditor, spoke to the reports which had been distributed.

5.1 Value for Money: Open Learning

The Committee noted and accepted the Advisory report, and the three recommendations related to carrying out a comprehensive review of the costs to agree a new costing model for the end of Session 2013/14.

5.2 Follow-Up reports

The Committee noted follow up audits in respect of network security, general ledger, risk maturity, transport (VfM) and business continuity planning. Of the recommendations made following the original audits, 10 had been implemented, two were ongoing and two were yet to be implemented, which was entirely acceptable to the Internal Auditors.

5.3 Income and Debtors

The Committee noted and accepted the report, which had identified no recommended actions. It was noted however that a Debt Recovery Agency was still not in place.

5.4 Procurement and Payments

The Committee noted and accepted the report, which identified three recommendations on the methods and background to how suppliers were chosen.

During discussion, G Devlin of Grant Thornton indicated his feeling that the limits applied were slightly high. The Finance Manager advised on the internal process where all quotes were kept on file, and added that the majority of these had already been subject to APUC tendering. The Committee agreed and asked for the process to be reviewed following 12 months operating under the ONS reclassification.

5.5 IA Progress Report

The Committee noted and accepted the report.

6 SI: ONS Reclassification of Colleges

G Devlin, External Auditor, advised that there was still a good deal of uncertainty and lack of guidance regarding colleges' year end arrangements, March or July, but the college should continue to plan for a March year end.

6.1 External Audit meeting – 11 February 2014

The Chair of the Committee tabled copies of an email he sent to all Board members following a meeting on 11th February with Gary Devlin, Grant Thornton, Chair of Audit, Brian Johnstone, Jannette Brown and Karen Hunter. In the email the Chair of Audit proposed that the Board decision to transfer reserves to the D&G Foundation was reversed, and that reserves (other than the Lennartz commitment) are transferred to the SFC Umbrella Trust.

This proposal was subsequently agreed to and approval was given (by email) from the Chairman of the Board for the College to sign up to the SFC Umbrella Foundation.

As a result the College had formally lodged a request to join the SFC Trust, and the Principal and Assistant Principal (LS) would meet with the Trustees in the near future to discuss the reserves to be lodged by 31 March, and the date when these would require to be returned.

The External Auditor stressed that the Accounting Officer (Principal) would need to be satisfied that the funds as public monies were to be used for the purpose intended. The Committee discussed the situation and agreed that the Principal should seek clarification with the Trustees on the process for fund donations and requests, and in particular that the funds lodged would be "restricted".

In the meantime, the College would continue with the process of setting up the D&G FE Foundation, although the Board may ultimately decide that this should remain dormant.

G Devlin also highlighted that it was crucial that the College achieve a break even position at 31 March 2014.

The Committee agreed that it was content with the arrangements in place to inform the Board regarding the decision on whether to join the Umbrella Trust were robust and appropriate.

7 SI: Institutional Sustainability

The Committee noted no change to the table considered at the previous meeting.

8 SI: Strategic Risk Register

The Assistant Principal (Learner Services) spoke to the report which had been distributed. She advised of only one proposed change, to Risk 12 regarding the ONS Reclassification, where it was felt that the residual risk could reduce from 12 to 9 and advice/guidance from external auditors added to the control measure.

The Committee noted the report and approved the proposal.

Business

9 External Audit Report

G Devlin, on behalf of Grant Thornton, spoke to the Financial Statements Audit Findings report which had been distributed. The Committee noted that there had been little change since the original draft which they had previously discussed, and recommended the Report to the Board for approval on 28 April 2014.

10 Any Other Business

None.

11 Date and Time of Next meeting

The next meeting had been diarised as 16 June 2014 but the Committee agreed that, in view of the change to the Accounting year, and in order to review the Audit Plan 2014/15, the next meeting would take place on 14 May 2014 from 12.30 pm.

Board of Management

Minute of the Meeting of the Audit Committee of the Board of Management of Dumfries and Galloway College held on Monday 30 September 2013 at 12.30 pm in Room 2009

Present: Hugh Carr (Chair)
Delia Holland
Fraser Sanderson

In attendance Carol Turnbull, Principal
Karen Hunter, Finance Manager
Jannette Brown, Clerk to the Board
Lindsay-Anne Straughton, RSM Tenon
Susan Sutherland, PA to the Principal

1 Apologies

Apologies for absence were intimated on behalf of Sandy Burgess and Karen MacGillivray Fallis.

2 Declaration of Interest

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

3 Minute of Previous Meeting

The Minute of the Audit Committee held on 17 June 2013 was approved.

4 Matters Arising

None.

STANDING ITEMS

5 SI: Internal Audit Reports

Lindsay-Anne Straughton, on behalf of RSM Tenon, Internal Auditor spoke to the reports which had been distributed:

5.1 Risk Management Policy

The Committee noted the report which had been issued and approved the proposed changes to the risk management policy.

5.2 Transport

Members noted the report which had been issued on the findings and recommendations following a Value for Money audit of the College fleet of vehicles. The Audit had identified systems to be put in place to collect the appropriate data in order to inform decision making. Management had accepted the recommendations and an implementation dates agreed.

6 ONS Reclassification of Colleges

The Principal confirmed that the Board had agreed that setting up its own Trust would be the preferred option but, in line with many other colleges, felt that the timescale involved would be challenging. The Regional Leads had unanimously informed the Cabinet Secretary that their preferred option would be for local trusts.

Members noted the discussion at the Board meeting earlier regarding the options of forming local trusts, and

agreed that the Principal progress the establishment of a local trust. The Finance Manager advised that the Finance Community of Practice was meeting on 8 November 2013 when they would agree questions to be pursued in terms of the setting up of trusts by individual colleges.

7 SI: Outstanding Audit Recommendations

The Committee noted the report which had been distributed by the Finance Manager, indicating that all outstanding audit recommendation had been actioned.

8 SI: Institutional Sustainability

The Committee noted that no change to the Audit elements of the IS table were proposed to that noted at the previous meeting.

9 SI: Strategic Risk Register

Members noted and approved the Strategic Risk Register at September 2013.

BUSINESS

10 Internal Audit Annual Report to July 2013

Ms Straughton, on behalf of RSM Tenon, spoke to the report which had been issued.

Members noted the positive outcome of the audits to July 2013, and congratulated staff of maintaining standards.

11 Draft Annual Report of the Committee to the Board 2012/13

Members noted and approved the Annual Report of the Committee to go to the Board.

11.1 Membership of the Audit Committee

The Committee agreed that two further Members be sought to boost the Membership of the Committee.

12 Any Other Business

12.1 Baker Tilly Business Services

Ms Straughton advised the RSM Tenon had become a subsidiary of Baker Tilly Business Services but assured Members that this would have no affect on the existing contract.

12.2 Internal Audit Contract

Ms Straughton queried whether the College would require to bring forward the renewal date of the IA contract because of the change to year end. Members agreed that the Clerk to the Board would confirm.

13 Date and Time of Next Meeting

The next meeting of the Committee would take place on 28 April 2014

Dumfries and Galloway College

Internal Audit Report (3.13/14)

FINAL

Value for Money – Open Learning

3 March 2014

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Debrief meeting	29 November 2013	Auditors	Patrick Green, Head Of Internal Audit
Draft report issued	20 December 2013		Lindsay-Anne Straughton, Assistant Manager
Revised draft issued	27 February 2014		Leanne Brook, Auditor
Responses received	3 March 2014	Client sponsor(s)	Janette Brown, Assistant Principal
Final report issued	3 March 2014	Report distribution	Janette Brown, Assistant Principal Karen Hunter, Finance Manager Alison Jardine, Business Development Manager

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report is prepared solely for the use of Board and senior management of Dumfries and Galloway College. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

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1 Executive Summary

1.1 Introduction

An advisory review of Value for Money – Open Learning was undertaken at the request of Dumfries and Galloway College.

Value for money (VFM) is defined as:

“A utility derived from every purchase or every sum of money spent. Value for money is based not only on the minimum purchase price (economy) but also on the maximum efficiency and effectiveness of the purchase.”

VFM is of the utmost importance in all organisations during these times of austerity to ensure they remain financially viable.

Dumfries and Galloway College have a portfolio of 34 Open Learning courses monitored by staff across both the Dumfries and Stranraer sites. These are broken down into the following six subject areas:

- Business and Accounting;
- Computing;
- Core Skills;
- Educational Studies;
- Health and Social Studies; and
- Hospitality.

The College had not assessed the actual cost of providing Open Learning courses for three years, therefore we were requested by management to carry out this review at a time when the College were reviewing and updating their methods used to capture Open Learning costs. This was in order to provide information which would enable the College to consider whether its current fees charged for Open Learning courses are the most appropriate and represent the best value for money.

Interviews were held with key staff involved in Open Learning courses, including:

- The Business and Development Manager;
- The Finance Manager;
- The Open Learning Coordinator; and
- The HR Officer.

1.2 Conclusion

Our review Value for Money – Open Learning identified the following:

- Up until the beginning of the 2013/14 academic year, the College did not perform a regular review of the actual cost they incurred in order to provide Open Learning courses other than to take into account the impact of inflation and any salary increases that may have occurred throughout the year. However, after discussions with the Business Development Manager, it was confirmed that at the time of our review, the College were currently undergoing a review of their data capture mechanisms in order to incorporate their findings into the costs of Open Learning courses for the 2014/15 Academic year.
- The College measured staff costs via timesheets. However, through our testing of 2012/13 timesheets it was identified that not all members of staff detailed what courses they had been involved in for that particular timesheet. As a result, the College could not determine the actual staff cost per course.

Further testing of 2013/14 timesheets confirmed that the courses were verified by the Open Learning Co-ordinator before they were input into a monitoring spreadsheet, which allowed the College to accurately monitor staffing costs. As a result, this has not been raised further.

- The College charged a standard fee for each course rather than taking account of the actual cost in terms of staff time and materials and how much profit they aimed to obtain from each course.

However, at the time of the review, the College were operating a new cost model for all new Open Learning courses whereby they calculated the cost of the course based on staffing and other expenses and then added a standard 10% profit level in order to obtain a fee, which would then be charged to the students.

- If the College were to not receive SUMs for Open Learning courses then the actual cost of providing the courses would exceed the income generated by £6,269.85. The cost of overheads was not used in this calculation or throughout the scope of this review as the College would incur overhead costs regardless of whether they provided Open Learning courses or not.

Further testing confirmed that the College calculated the cost of new Open Learning courses without considering income from SUMs to ensure the course was financially viable for the College should SUMs funding be withdrawn.

In conclusion, based on 2012/13 data Dumfries and Galloway College does not have sufficient management information regarding the cost of Open Learning to enable it to make an informed decision as to what fee to charge to ensure value for money as well as a profit for the College. However, based on further testing and discussions with the Business Development Manager, providing the College maintains the proposed mechanisms, then appropriate information should be generated from the 2014/15 academic year onwards in order to successfully cost Open Learning courses to ensure they are financially viable and profitable for the College.

1.3 Scope of the review

VFM reviews are an annual requirement of the Scottish Funding Council.

In the current climate colleges need to ensure that value is obtained from expenditure incurred. This may be by reducing costs for the same output or improving quality and outcome for the same overall cost.

The College raised concerns as to whether the cost charged for Open Learning courses was of the right level in order for the College to make a profit and whether it was being managed and delivered in the most cost effective way.

This review considered whether the College had adequate management information systems in place to enable it to gain data which would address this concern.

In particular, we considered:

- Assessing how the College captured and measured the costs and income associated with Open Learning activities; and
- Analysis of the data held within the finance system and other management data in order to determine whether the true costs of this activity could be identified;
- Comparison of the costs (if identifiable) against the income generated.

When planning the audit, the following limitations were agreed:

Limitations to the scope of the audit:

- We only considered the actual costs in relation to 2012/13 academic year and the actual costs for the 2013/14 year to date plus budgeted costs to the end of the academic year.
- We do not endorse any particular method of Open Learning provision.
- We have not provided an opinion on the quality of the College's Open Learning provision.
- This review focused only on the costs and income associated with Open Learning and not the provision itself.
- We have not validated the financial data provided by management or extracted from the finance system.
- Advisory work does not lead to a formal audit opinion but we have made recommendations, where appropriate, where we believe the control framework could be improved or where the systems in place could be more efficient.
- Although we reviewed the costing spreadsheet for new Open Learning courses and the monitoring spreadsheet for current staffing costs, we did not validate the data contained within those spreadsheets.
- 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.

The approach taken for this audit was an Advisory review.

1.4 Recommendations Summary

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Our recommendations address the areas within the scope of the audit as set out below:

	Priority		
	High	Medium	Low
Assesing how the College captures and measures the costs and income associated with Open Learning activities.	-	1	-
Analysis of the data held within the finance system and other management data	-	1	-
Comparison of the costs (if identifiable) against the income generated.	-	1	-
Total	-	3	-

2 Action Plan

The priority of the recommendations made is as follows:

Priority	Description
High	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Medium	
Low	
Suggestion	These are not formal recommendations that impact our overall opinion, but used to highlight a suggestion or idea that management may want to consider.

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
1	The College should continue to perform a comprehensive review of the cost to provide Open Learning at the College to ensure it is based on current and reliable information.	Medium	Y	The College has already started the review process and has moved to a new cost model for new courses. However, the College is still gathering data on existing courses as part of the review. Moving forward it is planned that the costing of all OL courses will be reviewed annually.	September 2014	Alison Jardine, Business Development Manager

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
2	The College should use the results from the costing review to devise individual prices for each course. The price charged should take into account the actual cost of providing the course and the 10% profit the College want to make on each course, based on the cost projections devised for new Open Learning Courses provided in the 2013/14 academic year.	Medium	Y	The College has already implemented this for new courses. From session 13/14 the college moved to a model taking into account individual courses, and a level of profit for the College on new OL courses being offered. The cost of existing courses will be reviewed once all data has been gathered and amended where necessary.	September 2014	Alison Jardine, Business Development Manager
3	The College should review the new costing model at the end of the 2013/14 academic year to ascertain if it is effective in providing the College with sufficient profit should SUMs funding not be received.	Medium	Y	The new costing model already implemented for new courses does not take account of any SUMs funding and this will then be applied to all Open Learning courses from the 2014/15 academic year.	March 2015	Alison Jardine, Business Development Manager

3 Finding and Recommendations

3.1 Assessing how the College captures and measures the costs and income associated with Open Learning activities

We established that the College performed a review of the Open Learning courses provided three years ago, which involved looking at the cost to provide those courses and the amount that should be charged as a fee to students who are not eligible to receive funding.

As a result of the review, each course was assigned a different fee: some of which were charged at a fee deemed appropriate to cover costs and provide a profit and others that were charged at a fee identical to the fee that would be charged for a student who completed the course at the College rather than via Open Learning.

It was deemed appropriate for some Open Learning courses to be charged at the same fee that they would be charged at if the course was completed at the College in order to emphasise the level of difficulty to the student and to not encourage them to take the Open Learning course as it was the cheapest option.

However, since the review three years ago, there had not been another detailed review as the fees were only adjusted on an annual basis to cover inflation and any salary increases throughout the year.

The Business Development Manager confirmed that although the 2013/14 prices had not been subject to a detailed review, an on-going review was being carried out by the College in order to capture all costs associated with providing Open Learning courses. This included monitoring staffing costs via a spreadsheet maintained by the Open Learning Co-ordinator. Once the 2013/14 academic year is complete, the data will then be collated in order to generate a total cost for each Open Learning course, which will then be used as a basis for the subsequent fee that will be charged to students for each course.

RECOMMENDATION (MEDIUM)
The College should continue to perform a comprehensive review of the cost to provide Open Learning at the College to ensure it is based on current and reliable information.

As part of our detailed testing, we reviewed the monthly timesheets for all 14 members of staff who were involved in providing Open Learning Courses during the 2012/13 Academic Year.

We established that in all cases the number of hours on the monthly timesheet agreed to the number of hours that were actually paid by HR. However, we identified that only three of the 14 members of staff had timesheets that fully detailed the courses they were involved in. For the remaining 11 members of staff, there were instances where we could not trace the hours worked, back to a specific course as the timesheet only detailed the hours worked and the name of the student they worked with.

As a result, we were unable to allocate the actual staff cost to specific courses and provide further analysis on the cost per hour of each Open Learning course ran by the College based on the 2012/13 data.

Discussions with the Business Development Manager and the Open Learning Co-ordinator confirmed that for the 2013/14 academic year, staff are now required to detail the associated courses on their timesheets to allow true staffing costs to be captured. Where timesheets are missing courses, these are then followed up by the Open Learning Co-ordinator with the appropriate member of staff. When verified, the Open Learning Co-ordinator then signs the timesheet to confirm the courses have been verified and the monitoring spreadsheet has been updated accordingly.

In order to verify this new mechanism, we performed sample testing of all 14 members of Open Learning staff to confirm their latest timesheet fully detailed the courses they were involved in teaching, for that month. We found that:

- In seven cases, the timesheet detailed the courses that member of staff had been involved in;
- In three cases, the courses were not fully detailed but the timesheet had been signed by the Learning Co-ordinator to confirm the courses had been verified before updating the spreadsheet;
- In two cases, the member of staff was now a full time employee therefore they no longer completed timesheets as they were salaried employees rather than being paid for actual hours worked; and
- In two cases, the member of staff had not been involved in teaching Open Learning so far for the 2013/14 academic year (February 2014) and therefore no timesheets were available to test.

As a result, this has not been raised further.

3.2 Analysis of the data held within the finance system and other management data in order to determine whether the true costs of this activity can be identified

We established that as part of the costing review which took place three years ago, a standard fee was charged on each course to ensure that the total cost of Open Learning was covered by the total fee income generated.

As a result, the College had not tailored the fees to reflect courses that cost more to provide than others. This means that some courses may be charged at a fee that doesn't cover the costs to provide that course whilst others may be making excess profit.

The College had also not defined a level or percentage of profit they wanted to make on each course and this resulted in a standard fee being charged rather than each course being charged at a fee that reflected the cost of running that course plus a percentage to reflect the level of profit the College wanted to make on the course.

Discussions with the Business Development Manager confirmed that this was the process for devising fees up until the 2013/14 academic year. However, the College had implemented a new cost model for Open Learning courses that were new in the 2013/14 academic year whereby the costs of providing that course were devised based on staffing, administration and other costs. The fee was then devised by adding 10% to the cost of providing the course to reflect a standard level of profit the College wanted to make on the course.

At the time of extended testing (February 2014), it was the intention of the College to apply this mechanism to all Open Learning courses provided by the College based on the actual costs of providing that course, devised from the monitoring spreadsheet maintained by the Open Learning Co-ordinator. This is to be applied for all Open Learning courses provided by the College from the 2014/15 academic year onwards.

RECOMMENDATION (MEDIUM)
The College should use the results from the costing review to devise individual prices for each course. The price charged should take into account the actual cost of providing the course and the 10% profit the College want to make on each course, based on the cost projections devised for new Open Learning Courses provided in the 2013/14 academic year.

3.3 Comparison of the costs (if identifiable) against the income generated.

We established that although the College is making a surplus of £78,608.26 based on the direct cost of providing Open Learning compared with the income generated from providing Open Learning, this would reverse to a deficit of £6,269.85 if the College were no longer able to claim SUMs.

As a result, it would be beneficial for the College to review the costs of Open Learning and determine if there are any areas where cost savings can be made to ensure Open Learning provision is still profitable for the College without income from SUMs funding.

Discussions with the Business Development Manager confirmed that this was the process for devising fees up until the 2013/14 academic year. However, the College had implemented a new cost model for Open Learning courses that were new in the 2013/14 academic year whereby the costs of providing that course were devised based on staffing, administration and other costs without taking into account SUMs income. This means that should SUMs income be withdrawn, it should not negatively impact on the College's finances as it would only reduce profit rather than cause a loss.

At the time of extended testing (February 2014), it was the intention of the College to apply this mechanism to all Open Learning courses provided by the College from the 2014/15 academic year onwards.

RECOMMENDATION (MEDIUM)
The College should review the new costing model at the end of the 2013/14 academic year to ascertain if it is effective in providing the College with sufficient profit should SUMs funding not be received. .

Dumfries and Galloway College

[Internal Audit Report \(7.13/14\)](#)

FINAL

Follow Up of Previous Internal Audit Recommendations

4 March 2014

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Debrief meeting	13 February 2014	Auditors	Patrick Green, Head of Internal Audit
Draft report issued	3 March 2014		Lindsay-Anne Straughton, Assistant Manager Daniel Nield, Assistant Auditor
Responses received	4 March 2014	Client sponsor(s)	Janette Brown, Assistant Principal
Final report issued	4 March 2014	Report distribution	Janette Brown, Assistant Principal

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1 Executive Summary

1.1 Introduction

As part of the approved internal audit periodic plan for 2013/14 we have undertaken a review to follow up progress made by Dumfries and Galloway College to implement previous internal audit recommendations. Recommendations with dates for implementation not yet due will be followed up as part of the 2014/15 follow up work.

The audits considered as part of the follow up review were:

- Network Security Review 03.12/13;
- General Ledger 06.11/12;
- Risk Maturity 05.12/13;
- Value for Money – Transport; and
- Follow Up 07.12/13.

The 14 recommendations considered in this review comprised of 14 'medium' recommendations.

Concentrating on the recommendations classified as 'medium', the focus of this review was, to provide assurance that all recommendations previously made have been adequately implemented. For recommendations categorised as 'low' we have accepted management's assurance regarding their implementation.

Staff members responsible for the implementation of recommendations were interviewed to determine the status of agreed actions. Where appropriate, audit testing has been completed to assess the level of compliance with this status and the controls in place

1.2 Conclusion

Taking account of the issues identified in the remainder of the report and in line with our definitions set out in Appendix A, in our opinion Dumfries and Galloway College has demonstrated good progress in implementing actions agreed to address internal audit recommendations.

There are no high or medium recommendations that we consider to be receiving inadequate management attention.

We have reiterated recommendations where these have not yet been implemented. In addition, we have made new recommendations where appropriate; these are detailed in the action plan.

1.3 Limitations to the Scope of the Audit

This review only covered audit recommendations previously made and did not review the whole control framework of the areas listed above. Therefore, we are not providing assurance on the entire risk and control framework of those areas.

Only high and medium recommendations will be followed up; low recommendations will not be considered as part of this review.

Where testing has been undertaken, our samples have been selected over the period since actions were implemented or controls enhanced.

Our work does not provide any guarantee or absolute assurance against material errors, loss or fraud.

1.4 Recommendations Tracking

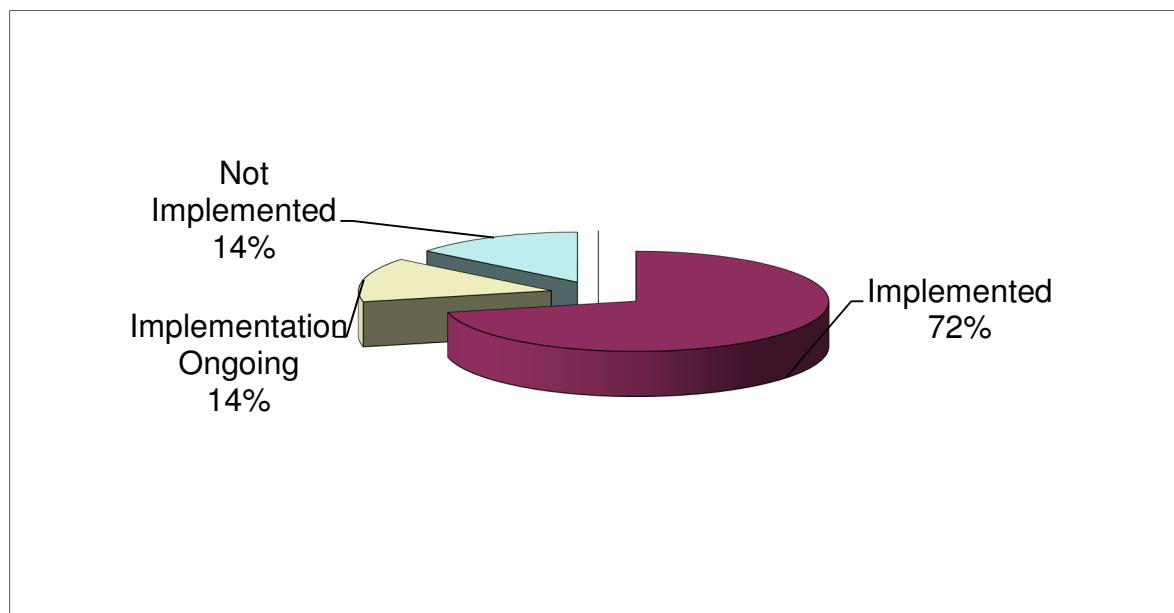
Recommendation tracking enhances an organisation's risk management and governance processes. It provides management with a method to record the implementation status of recommendations made by assurance providers, whilst allowing the Audit Committee to monitor actions taken by management.

Recommendation tracking is undertaken by Dumfries and Galloway's management on a regular basis, with an update provided to the Audit Committee at each meeting. As part of our Follow Up review, we have verified this information and completed audit testing to confirm the level of implementation stated and compliance with controls.

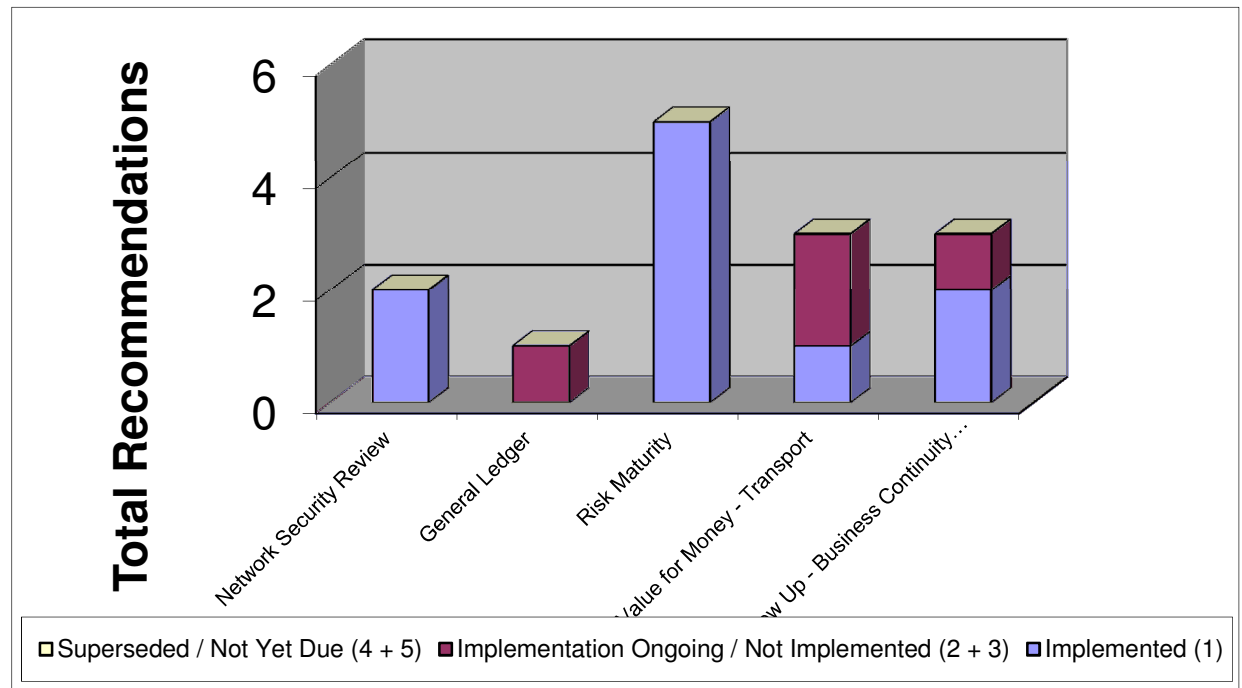
The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

1.5 Status of Recommendations Followed Up

The pie chart below provides an overview of the status of recommendations that have been followed up as part of this review.



The bar chart below provides an overview of the status of recommendations that have been followed up as part of this review, grouped according to audit area:



2 Action Plan

The priority of the recommendations made is as follows:

High	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Medium	
Low	
Suggestion	These are not formal recommendations that impact our overall opinion, but used to highlight a suggestion or idea that management may want to consider.

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
2.1	GENERAL LEDGER 06.12/13					
2.1.1	The College should ensure that the journals prepared, posted and authorised by the Finance Manager are reviewed by the Assistant Principal of Learner Services (APLS). This review could be completed on a sample basis.	Medium	Y	The College has developed an online report for the AP (LS) to view journals posted by the Finance Manager. This is done on a sample basis and further information /clarification is discussed during general meetings with the AP (LS) and Finance Manager	March 14	Finance Manager

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
2.2	VALUE FOR MONEY – TRANSPORT 09.12/13					
2.2.1	The College should maintain a record of the total costs of each of the vehicles within the fleet. This should include: <ul style="list-style-type: none"> Fuel cost; Maintenance costs including MOT; Insurance costs; Road Fund Licence; and Depreciation. 	Medium	Y	The transport co-ordinator will develop a spreadsheet to capture the total costs of each vehicle in the fleet.	May 14	Transport co-ordinator
2.2.2	The College should continue to develop the vehicle replacement policy, including those areas of improved discussed where the policy could be further enhanced. Once finalised this should be formally approved and implemented.	Medium	Y	The draft policy will now be updated to reflect the enhancements suggested following the recent follow-up audit.	March 14	Assistant Principal Quality and Estates

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
2.3	FOLLOW UP 07.12/13					
2.3.1	The College should plan the main aspects of key systems that will be tested during each test restore on a rolling basis to ensure that all key systems are tested.	Medium	Y	The College will alter the process for data recovery on a sample basis to also include recovery and restore key business systems.	February 2015	Assistant Principal Learner Services

3 Findings and Recommendations

Each recommendation followed up has been categorised in line with the following:

Status	Detail
1	The entire recommendation has been fully implemented.
2	The recommendation has been partly though not yet fully implemented.
3	The recommendation has not been implemented.
4	The recommendation has been superseded and is no longer applicable.
5	The agreed date for implementing the recommendation has not yet been reached.

3.1	NETWORK SECURITY REVIEW 03.12/13				Status Reported To Audit Committee	FINDINGS	
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible		Status	Comments / Implications / Recommendations
3.1.1	<p>The College should review its approach to network passwords and implement regular password changes and complexity for staff through the use of multiple password policies available in Windows 2008 R2.</p> <p>In reviewing the password policies, consideration should also be given to requiring student accounts to be subject to a force change at the start of each term.</p>	Medium	30/09/13	IT Manager	In progress	1	<p>Review of the ICT Security Policy confirmed that staff were required to change their passwords twice per year.</p> <p>Discussions with the IT Manager also confirmed that regular password changes were required for staff twice per year and this was evidenced by a screenshot of the Group Policy Management Editor which showed the maximum password age being 166 days.</p> <p>Testing of a sample of five members of staff confirmed that their passwords had been changed at the beginning of February which was half way through the academic year.</p> <p>Discussions with the IT Manager identified that due to the administrative burden associated</p>

3.1	NETWORK SECURITY REVIEW 03.12/13				Status Reported To Audit Committee	FINDINGS	
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible		Status	Comments / Implications / Recommendations
							with contacting students about regular password changes the College decided not to require students to change their passwords each term and instead they were required to do so at the start of each academic year during the induction process.
3.1.2	<p>The ICT Manager should review the membership of the Domain Admins group and remove those accounts which do not require this level of privilege. This exercise should be part of a regular scheduled procedure. User accounts which require intermittent membership of this group should be disabled and moved to a restricted permissions group and only activated when required, and authorised by the ICT Manager.</p> <p>The ICT Manager should anonymously rename the built in administrator account in accordance with Microsoft good practice.</p>	Medium	30/09/13	IT Manager	In progress	1	<p>Discussions with the IT Manager identified that the one member of staff who required intermittent membership was disabled at the time of the audit. This account disable acted as a compromise to changing the administrative account name, as this could not be done on the College system.</p> <p>In addition, it was confirmed via the Staff Intranet that the staff members who were in the admin group worked in an appropriate job role.</p>

3.2	GENERAL LEDGER 06.12/13				Status Reported To Audit Committee	FINDINGS	
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible		Status	Comments / Implications / Recommendations
3.2.1	<p>As a matter of course journals should be prepared by the Finance Assistants or the Assistant Finance Manager; with the Finance Manager acting solely as a reviewer and authoriser. This does not need to be for all journals as those prepared by the Finance Assistants may still be reviewed and approved by the Assistant Finance Manager.</p> <p>Discussions with the Finance Manager established that there may be occasions when due to staff absence the Finance Manager would need to be able to post journals. Therefore, we recommend that a quarterly log of journals posted by the Finance Manager is produced, which should then be reviewed and signed off by the Assistant Principal Learner Services.</p> <p>Supporting information for the journals should be held in a shared drive/folder so that this is available to both the staff preparing the journal and the Finance Manager when reviewing and approving the</p>	Medium	31/08/13	K Hunter, Finance Manager	In progress	3	<p>Testing of a sample of ten journals identified that in six cases the journal was prepared and posted by the Finance Manager.</p> <p>In four of these cases the journal was authorised by the Senior Finance Assistant and in the other two cases there was no authorisation present.</p> <p>In three cases the journal was posted by the Finance Assistant. In two of these cases authorisation came from the Senior Finance Assistant and in the other case the Finance Manager authorised the journal.</p> <p>In one case the journal was prepared and posted by the Senior Finance Assistant and authorised by the Finance Manager.</p> <p>The College did not post a quarterly log of journals posted by the Finance Manager. Discussions with the Assistant Principal of Learner Services and the Finance Manager identified that a report could be run to view the journals that the Finance Manager had posted. The journals could then be tested on a sample basis and this will ensure that there is segregation of duties regardless of who prepares and posts the journal.</p> <p>Supporting information was available for all ten journals in the sample and this included:</p> <ul style="list-style-type: none"> - Email trails; - Nominal Budget Reports; - VAT Reports; and - Evidence on the Student Records System.

3.2	GENERAL LEDGER 06.12/13				Status Reported To Audit Committee	FINDINGS	
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible		Status	Comments / Implications / Recommendations
	journals.						<p>The supporting information was located in paper copy in a folder which was accessible to the members of staff who posted, prepared and authorised the journals.</p> <p><i>Revised Recommendation</i></p>

3.3		RISK MATURITY 05.12/13			Status Reported To Audit Committee	FINDINGS	
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible		Status	Comments / Implications / Recommendations
3.3.1	The College should define its risk appetite. This should be included within the Risk Management Policy and should be clearly communicated.	Medium	30/09/13	Assistant Principal Learner Services	In progress	1	Review of the Risk Management Policy confirmed that a risk appetite had been defined and was clearly communicated through the policy. It detailed a risk scoring system, examples of levels of risk in key operational areas and also a risk appetite response depending on the residual risk assessment.
3.3.2	A training programme relating to risk management should be developed to provide on-going education and support to staff and Governors. The material should be reflective of the business planning arrangements in place at the College and how embedding risk management into operational and strategic processes will allow for managing issues that either threaten or provide opportunity in order to achieve objectives.	Medium	30/09/13	Assistant Principal Learner Services	In progress	1	Discussions with the Assistant Principal of Learner Services identified that at the time of the audit risk management training had been provided to new Governors in the form of an induction session held in September 2013. In addition, through review of a feedback form and attendance sheet it was confirmed that a risk management training session took place on 20 th January 2014 to provide Board members with refresher training in risk management. In terms of on-going training, the College was awaiting the new to be announced changes in governance and reporting structures for Public Sector Bodies later in 2014.
3.3.3	For each control detailed in the risk register, the key assurances over the operation of that control should be documented including what form the assurance takes and how it is reported.	Medium	30/09/13	Assistant Principal Learner Services	In progress	1	Review of the Strategic Risk Register confirmed that for each control the College had in place the relevant internal and external assurances were documented in a clear and concise manner. The assurance form and the way it was reported were also clear. In addition, assurances were identified as being

3.3	RISK MATURITY 05.12/13				Status Reported To Audit Committee	FINDINGS	
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible		Status	Comments / Implications / Recommendations
	<p>The assurances should be specific enough to allow the reader to identify how it provides assurance against the risk documented.</p> <p>All sources of assurance (both internal and external) should be considered and incorporated into the risk registers, including whether this provides positive or limited assurance.</p>						internal or external and a section on the residual risk indicated the level of assurance provided.
3.3.4	Once the College has mapped the assurance it receives, an assurance plan should be produced which identifies gaps in assurance and ensures the College has adequate assurance in place for all its risks on the risk register.	Medium	30/09/13	Assistant Principal Learner Services	In progress	1	Review of the risk register identified that a 'Further Action' column had been added which detailed how the college attempted to mitigate the risk where gaps in assurance existed. This allowed the College to document additional measures which could have been taken to help reduce the size of the assurance gaps.
3.3.5	Once the risk appetite has been defined, the College should determine what level of risk reporting is appropriate to enable the Audit Committee to focus its attention on providing assurance to the Board on the effectiveness of the overall risk management arrangements. This could include the strategic risks or risks above the College's defined risk appetite supplemented by a summary	Medium	30/09/13	Assistant Principal Learner Services	In progress	1	Discussions with the client manager, who attended Audit Committees and Board meetings on behalf of the college, confirmed that the College reports strategic risks to the Audit Committee on a quarterly basis in addition to examples of different risks. It was also confirmed via discussions with the client manager that the Risk Management Policy is reviewed and approved by the board on an annual basis.

3.3	RISK MATURITY 05.12/13				Status Reported To Audit Committee	FINDINGS	
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible		Status	Comments / Implications / Recommendations
	<p>paper from the SMT of any movements or significant issues arising from their review of the operational risks.</p> <p>The College should then determine an appropriate level of risk reporting to the Board. As a minimum, the Board should review the risks register on an annual basis with ongoing review provided through updates from the Audit Committee after each meeting with reporting by exception of any issues which the Audit Committee feel should be escalated.</p>						

3.4	VALUE FOR MONEY – TRANSPORT 09.12/13				Status Reported To Audit Committee	FINDINGS	
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible		Status	Comments / Implications / Recommendations
3.4.1	<p>The College should maintain a record of the total costs of each of the vehicles within the fleet. This should include:</p> <ul style="list-style-type: none"> • Fuel cost; • Maintenance costs including MOT; • Insurance costs; • Road Fund Licence; and • Depreciation. 	Medium	September 2013	Transport Co-Ordinator	In progress	3	<p>We established that although the College now includes vehicles registration numbers within the Finance system for all vehicles, the system cannot be interrogated by registration number to show the total costs for each vehicle; all transactions need to be examined in order to identify those which relate to specific vehicle and therefore this as not sufficiently addressed the original recommendation raised.</p> <p>Recommendation Re-iterated</p>
3.4.2	<p>The College should develop a replacement policy for its transport fleet.</p> <p>This should include:</p> <ul style="list-style-type: none"> • Age and/or mileage at which vehicles are first considered for replacement; and • A defined level of acceptable maintenance costs, after which vehicles are considered for replacement. <p>This should enable the College to adequately plan and budget for fleet replacements.</p>	Medium	November 2013	Assistant Principal Quality and Estates	In progress	2	<p>The College have developed a draft replacement policy which contains a defined criteria for the replacement of vehicles.</p> <p>During our visit we reviewed the policy and provided a number of areas of feedback where the policy could be further enhanced, and on processes which the College could put in place to enable the replacement cycle policy to be implemented.</p> <p>Recommendation Revised</p>

3.4	VALUE FOR MONEY – TRANSPORT 09.12/13				Status Reported To Audit Committee	FINDINGS	
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible		Status	Comments / Implications / Recommendations
3.4.3	The College should implement a system whereby the utilisation of vehicles within its fleet is recorded and from which management information can be extracted.	Medium	March 2014	Transport Co-Ordinator	In progress	1	We confirmed that this data is now captured in the fleet spread sheets.

3.5	FOLLOW UP 07.12/13				Status Reported To Audit Committee	FINDINGS	
Ref	Original Recommendation	Original Category	Original Impl'n Date	Manager Responsible	[status / date reported]	Status	Comments / Implications / Recommendations
3.5.1	The College should ensure that the action plans and key contact information of staff is held on the memory stick.	Medium	31/03/13	Janette Brown Assistant Principal	In progress	1	It was confirmed through review that the action plans and key staff contact details were now additionally being held electronically on the memory stick as well as in hardcopy. They had been most recently updated in February 2014.
3.5.2	The College should ensure that key supplier information is uploaded onto the memory stick.	Medium	31/03/13	Janette Brown Assistant Principal	In progress	1	It was confirmed through review that the key supplier information had been transferred to the memory stick, having previously been held in hardcopy. It had most recently been updated in February 2014.
3.5.3	The College should document the outcomes of the recent closure of the College due to adverse weather in order to ensure that any lessons learnt or actions for improvement are identified and taken forward. In addition, the College should ensure that it has in place a pro-active plan to test its key systems on a rolling basis.	Medium	31/03/13	Janette Brown Assistant Principal	In progress	2	Review of the incident log confirmed that it showed details of incidents and the action taken in response to those incidents. It also detailed the person by whom the action was taken and any follow up actions required. However, the college did not have a plan in place to test its key computer systems. Parts of the systems were routinely tested as part of the backup and test restore process on a sample basis. The College should undertake this on systematic basis. Revised Recommendation

Appendix A: Definitions for Progress Made

The following opinions are given on the progress made in implementing recommendations.

This opinion relates solely to the implementation of those recommendations followed up and not does not reflect an opinion on the entire control environment.

Progress in implementing recommendations	Overall number of recommendations fully implemented	Consideration of high recommendations	Consideration of medium recommendations	Consideration of low recommendations
Good	75% +	None outstanding	None outstanding	All low recommendations outstanding are in the process of being implemented
Adequate	51 – 75%	None outstanding	75% of medium recommendations made are in the process of being implemented	75% of low recommendations made are in the process of being implemented
Little	30 – 50%	All high recommendations outstanding are in the process of being implemented	50% of medium recommendations made are in the process of being implemented	50% of low recommendations made are in the process of being implemented
Poor	< 30%	Unsatisfactory progress has been made to implement high recommendations	Unsatisfactory progress has been made to implement medium recommendations	Unsatisfactory progress has been made to implement low recommendations.

Appendix B: Data to Support our Opinion

Implementation Status by Review

Review	Total No. of recs agreed.	Status of Recommendation					Audit work confirmed as completed or no longer necessary (1)+(4)	No of recs carried forward for follow up at next review (2)+(3)+(5)
		Recs. not due for implementation (5)	Implemented (1)	Implementation Ongoing (2)	Not Implemented (3)	Superseded (4)		
Network Security Review	2	-	2	-	-	-	2	-
General Ledger	1	-	-	-	1	-	-	1
Risk Maturity	5	-	5	-	-	-	5	-
Value for Money – Transport	3	-	1	1	1	-	1	2
Follow Up	3	-	2	1	-	-	2	1
Total	14 100%	-	10 72%	2 14%	2 14%	-	10 72%	4 28%

Implementation Status of Recommendations by Category

Recommendation Category	Total number of recs agreed.	Audit Status					Audit work confirmed as completed (1)+(4)	No of recs carried forward to next review (2)+(3)+(5)
		Recs. not due for implementation (5)	Implemented (1)	Being Implemented (2)	Not Implemented (3)	Superseded (4)		
Medium	14	-	10	2	2	-	10	4
Totals	14 100%	-	10 72%	2 14%	2 14%	-	10 72%	4 28%

Dumfries and Galloway College

[Internal Audit Report \(4.13/14\)](#)

FINAL

Income and Debtors

26 February 2014

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Debrief meeting	30 January 2014	Auditors	Patrick Green, Head of Internal Audit
Draft report issued	6 February 2014		Lindsay-Anne Straughton, Assistant Manager
Responses received	25 February 2014		Leanne Brook, Auditor
Final report issued	26 February 2014	Client sponsor	Jannette Brown, Assistant Principal
		Distribution	Jannette Brown, Assistant Principal Karen Hunter, Finance Manager

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report is prepared solely for the use of the Board and senior management of Dumfries and Galloway College. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

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1 Executive Summary

1.1 Introduction

An audit of Income and Debtors was undertaken as part of the approved internal audit periodic plan for 2013/14.

The Finance team is responsible for the collection and accounting, of any income and debts due to the College. The College use the SITS system in order to monitor and chase any outstanding debts owed to the College. Access to the income and debtors module of the system is restricted to the Finance team that consists of:

- A Finance Manager;
- A Senior Finance Assistant; and
- Two Finance Assistants.

The College work to a Debt Collection Procedure:

“To maintain a system of pursuing outstanding debt to ensure that monies owed to the College are paid within the set timescales and any overdue amounts are identified and issued promptly.”

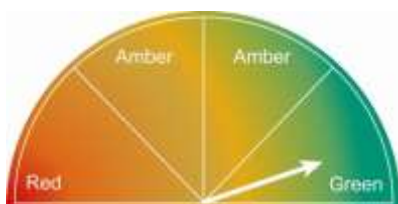
When the College have difficulties in recovering a debt, they refer the debt to a debt collection agency. The College were using The Lewis Group as their debt collection agency who charged commission based on the amount of debt collected and a flat fee for any other work that had been agreed beforehand. However, The Lewis Group closed in December 2013 and the College are in the process of obtaining a new debt collection agency.

If a debt is irrecoverable, then it must be submitted to the Finance and General Purposes Committee for authorisation to be written off. This is the process for all irrecoverable debts as there are no threshold levels in place for the approval of write offs.

As at period 5, the College currently have 87 outstanding debts totalling £44,812.38. Thirty four of the 87 are over 3 months old and total £16,150.03.

The College's current bad debt provision stands at £2,938 and the amount that has been authorised to be written off between 1st August 2013 and 31st December 2013 stands at £664.77.

1.2 Conclusion



Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and effective

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

Design of control framework

At the time of the audit, the following controls were in place:

- Sales invoices are issued by the Finance Assistant after an invoice request has been raised by a member of staff to ensure segregation of duties is maintained.
- Student debts are monitored via a three letter reminder process initiated by the Finance Assistant before being contacted by Finance.
- Students who fail to repay their debt: are asked to leave the course, have their certificates withheld until the debt is paid or they are referred to a debt collection agency where appropriate.

- Debtors who fail to repay their debt have their account suspended and are referred to a debt collection agency where necessary.
- The Finance and General Purposes Committee are provided with an update of debtors at each meeting via a debt report prepared by the Finance Manager.
- The aged debt provision is monitored by the Finance Manager and the amount recognised reflects 50% of the College's debts that are more than 3 months old. Movements are authorised by the Finance and General Purposes Committee.

Application of and compliance with control framework

- For a sample of invoices issued between August 2013 and January 2014, it was found that in all 15 cases they had been requested by a member of staff and issued by the Finance Assistant showing segregation of duties.
- A sample of debts owed by students was selected from the January 2014 aged debtors report and it was found that in all ten cases:
 - The correct three letter process had been followed before the student was contacted by Finance.
 - Eight had been appropriately referred to the debt collection agency and therefore did not need to be asked to leave or have their certificates withheld. The remaining two cases were not yet at the referral stage
- A sample of debts owed by debtors was selected from the January 2014 aged debtors report and it was found that in all ten cases they had their account suspended and had been referred to the debt collection agency where appropriate.
- For September 2013 and November 2013, minutes were reviewed to confirm that the Finance and General Purposes Committee was provided with a debtors report updating them of the College's status.
- Evidence was reviewed to confirm that the year-end aged debt provision represented 50% of the College's debts that were more than 3 months old. The July 2013 provision decreased from the July 2012 provision and therefore minutes of the September 2013 Finance and General Purposes Committee were reviewed to confirm this movement had been approved.

We have raised three recommendations with regards to the application of the control framework:

- The Debt Collection procedure is not updated on a regular basis as it was last updated in November 2010.
- A sample of 10 debts owed by debtors was selected from the January 2014 aged debtors report and it was found that in five cases, the first reminder letters were not sent out in a timely manner as the debt was more than 30 days overdue instead of 14 days.
- A sample of three write offs made between August and November 2013 were selected and it was found that in two cases, the write off had been approved in November 2013 but still not processed in the accounts at the time of the audit (January 2014).

1.3 Scope of the Review

The scope of this review was to:

- Evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion; and
- Confirm that control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively.

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

Areas for Review:

- Raising of debtor invoices.
- Debt management.
- Aged debt reporting and write off.

As part of this review we:

- Selected a sample of invoices raised and confirmed that the College's procedures had been followed, including authorisation to raise the debt and segregation of duties.
- Selected a sample of aged debts and confirmed that the College's procedures have been followed in terms of recovery, including the suspension of customer accounts.
- Selected a sample of debts written off and confirmed that in each instance appropriate recovery action was taken and that the write off was approved in line with the levels of delegated authority within the Financial Regulations.
- Reviewed the movements on the aged debt provision at the year-end to confirm that they were appropriate.

Limitations to the scope of the audit:

- Our work has not provided assurance that the College has identified all debts/ monies owed to it; only whether the College has mechanisms in place to identify income due.
- We have not considered the suitability of wording used in credit control letters.
- We have not considered the effectiveness of credit control actions taken, only whether actions have been taken.
- We have not commented on the use of any third party debt collection agencies.
- Testing was undertaken on a sample basis only on transactions from 1st August 2013 to the time of our audit visit.
- Our work does not provide an absolute assurance that material errors, loss or fraud do not exist.

The approach taken for this audit was a System-Based Audit.

1.4 Recommendations Summary

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Our recommendations address the design and application of the control framework as follows:

	Priority		
	High	Medium	Low
Design of control framework	-	-	-
Application of control framework	-	2	1
Total	-	2	1

The recommendations address the risks within the scope of the audit as set out below:

Area	Priority		
	High	Medium	Low
Raising of debtor invoices.	-	-	1
Debt management.	-	1	-
Aged debt reporting and write off.	-	1	-
Total	-	2	1

2 Action Plan

The priority of the recommendations made is as follows:

Priority	Description
High	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Medium	
Low	
Suggestion	These are not formal recommendations that impact our overall opinion, but used to highlight a suggestion or idea that management may want to consider.

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
1	The College should perform a bi-annual review of the Debt Collection Procedure to ensure it accurately reflects up-to-date practices performed by the College.	Low	Y	The debt collection procedure will be updated in line with the College Quality Control procedures.	30.04.14	Finance Manager
2	The College should perform a regular spot check to ensure debtors have been issued with the latest reminder applicable to them.	Medium	Y	Regular Spot-checks will be carried out to correspond with reporting on aged debts to the Finance and General Purposes Committee.	30.04.14	Finance Manager/ Senior Finance Assistant
3	The College should implement a schedule whereby write-offs are processed within a month of approval to ensure they are processed in a timely manner and that the Management Accounts accurately reflect the position of the College.	Medium	Y	The Finance Assistant will be reminded of the need to process debt write-offs in a timely manner following approval by the Finance and General Purposes Committee.	28.02.14	Finance Manager/ Senior Finance Assistant

3 Findings and Recommendations

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 audit testing undertaken.

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
Area 1: Raising of debtor invoices.					
1	<p>There is a Debt Collection Procedure in place, which details the debt recovery processes followed by the College.</p> <p>It is updated on a regular basis and available to all staff via the intranet.</p>	Yes	<p>The Debt Collection Procedure was reviewed and it was confirmed that it detailed the debt management processes followed by the College including: reminder letters, referral to debt collection agencies and legal action. A screenshot was obtained to confirm the Debt Collection Procedure was available to all staff via the intranet.</p> <p>The Debt Collection Procedure was reviewed and it was confirmed that it was last updated in November 2010. At the time of the audit (January 2014), the procedure was not scheduled to be reviewed.</p> <p>Without a regular review of the procedure, out of date practices might be followed, which could lead to a delay in debt collection and even excess write-offs causing financial loss for the College.</p>	The College should perform a bi-annual review of the Debt Collection Procedure to ensure it accurately reflects up-to-date practices performed by the College.	Low

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
Area 2: Debt management.					
2	<p>Debtors are monitored against the following timetable:</p> <ul style="list-style-type: none"> Balances overdue by 14 days are sent a 1st stage letter as a reminder; Balances overdue by a further 30 days are sent a 2nd stage letter as a reminder; and Balances overdue by a further 44 days are sent a 3rd stage letter before they are contacted by Finance. 	Yes	<p>A sample of debts owed was selected from the January 2014 aged debtors report and it was found that:</p> <ul style="list-style-type: none"> In five cases a letter 1 had not been sent out when the debt was 14 days overdue and the debts were subsequently more than 30 days overdue. However, no further action was needed as the debt had been subsequently paid. <p>By not issuing reminders in a timely manner, the College increase the likelihood of irrecoverable debts which in turn could increase financial loss for the College.</p>	The College should perform a regular spot check to ensure debtors have been issued with the latest reminder applicable to them.	Medium

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
Area 3: Aged debt reporting and write off.					
3	All proposed write offs are submitted to the Finance and General Purposes Committee to be approved before they are actually written off in the accounts.	Yes	<p>A sample of write offs made between August and November 2013 were selected and it was found that:</p> <ul style="list-style-type: none"> In all three cases, the write off had been approved by the Finance and General Purposes Committee. In one case the write off had been processed in the accounts but the remaining two cases had not. A spreadsheet was obtained to confirm the write offs were pending at the time of the audit (January 2014) even though they had been approved for write off in November 2013. <p>There is a risk to the College that if write offs are not processed in a timely manner, it could lead to misstatements in the financial statements.</p>	The College should implement a schedule whereby write-offs are processed within a month of approval to ensure they are processed in a timely manner and that the Management Accounts accurately reflect the position of the College.	Medium

Dumfries and Galloway College

[Internal Audit Report \(5.13/14\)](#)

FINAL

Procurement and Payments

26 February 2014

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Debrief meeting	30 January 2014	Auditors	Patrick Green, Head of Internal Audit Lindsay-Anne Straughton, Assistant Manager Leanne Brook, Auditor
Draft report issued	6 February 2014		
Responses received	25 February 2014		
Final report issued	26 February 2014	Client sponsor	Jannette Brown, Assistant Principal
		Distribution	Jannette Brown, Assistant Principal Karen Hunter, Finance Manager

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report is prepared solely for the use of the Board and senior management of Dumfries and Galloway College. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

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1 Executive Summary

1.1 Introduction

An audit of Procurement and Payments was undertaken as part of the approved internal audit periodic plan for 2013/14.

The Finance team is responsible for the oversight of College's accounts payable function. The College use Resource as their accounting system and it has been in place for the last 12 years. The system records the collection, storage and processing of financial and accounting data. Access to the system is restricted to the Finance team that consists of:

- A Finance Manager;
- A Senior Finance Assistant; and
- Two Finance Assistants.

All purchase orders (POs) are authorised by the Budget Holder up to £10,000 with further authorisation required by the Principal for orders between £10,000 and £74,999. Any orders above £75,000 are authorised by the Chairman or Vice Chairman of the Board. Goods are acquired from the Professional Electronic Commerce Online System (PECOS) system.

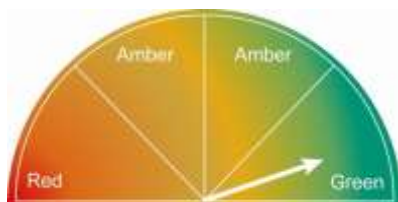
The College do not use POs for the following items due to the high volume of transactions that occur within a short time period:

- Utilities; and
- Exam Registrations.

The College have a list of approved suppliers set up within the Resource Finance system that they use for the majority of their purchases. Only the Finance team can set up a new supplier and suppliers are paid via a monthly BACS payment run. Cheques can also be used to pay suppliers where necessary.

As at period 5, Dumfries and Galloway College had spent £1,906,411.62 to date on non-pay expenditure in a total of 1091 transactions. Dumfries and Galloway College had also received 38 credit notes totalling £16,589.78.

1.2 Conclusion



Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and effective

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

Design of control framework

At the time of the audit the following controls were in place:

- There are Financial Regulations in place, which contain high level information regarding the procurement and payment functions. They are regularly updated and available to all staff via the intranet.
- Policies and procedures are in place, which sufficiently detail each aspect of the procurement and payment functions. They are available to all staff via the intranet.
- Purchase Orders (POs) are emailed to suppliers by the Pecos system a requisition has been raised and authorised by the relevant Budget Holder.
- For non-POs the invoice is signed by the Budget Holder for authorisation and no additional steps are required.
- New suppliers are set up on the Finance system once an official company letterhead with bank details has been received by the College to confirm they are a genuine supplier and to verify who the key contact is.

- Access to the Finance system is restricted to the four members of the Finance team and their access is tailored to reflect individual job roles.
- When goods are delivered, the quantity and quality is checked to the original order before the e-procurement system; PECOS is updated to confirm that the goods have been receipted.
- Finance checks the PECOS to confirm the goods have been delivered to the quantity and quality ordered in order for the invoice to be paid.
- A monthly BACS run is created by the Finance Assistant, check by Senior Finance Assistant and authorised by the Finance Manager.
- Each cheque is. Each cheque is raised via the cash book and signed in line with the Financial Regulations, and cashed by the supplier upon receipt.
- Credit notes are checked against the original invoice before they are processed by Finance.

Application of and compliance with control framework

- The Financial Regulations were reviewed and it was confirmed that they sufficiently detailed the procurement and payment functions applied within the College. Minutes confirmed that they were approved on an annual basis by the Finance and General Purposes Committee. Evidence was reviewed to confirm the Regulations were available to all staff via the intranet.
- The Policies and Procedure notes were reviewed and it was confirmed that they sufficiently detailed each part of the procurement and payment functions. Evidence was reviewed to confirm the Procedures were available to all staff via the intranet.
- A sample of purchase orders that had been issued between August 2013 and December 2013 was selected and it was found that in all 15 cases a requisition had been raised and appropriately authorised within the budget holders' limits before an order was placed with a supplier.
- A sample of non-purchase orders that had been selected between August 2013 and December 2013 was selected and it was found that in all ten cases, the invoice had been appropriately authorised before payment.
- A sample of new suppliers was selected that were added between August 2013 and January 2014 and it was found that in all five cases a company letterhead had been received to confirm the supplier was genuine.
- An access rights report was obtained to confirm access to the Finance system was restricted to the four members of the Finance team and the access levels were appropriate to reflect their job roles.
- A sample of purchase orders that had been issued between August 2013 and December 2013 was selected and it was found that in all 15 cases:
 - The goods had been fully receipted against the original order before being paid for.
 - The goods had been fully receipted, therefore the invoice did not need further authorisation and it could subsequently be paid.
 - The payment run was created by the Senior Finance Assistant and authorised by the Finance Manager.
- A sample of cheques was selected that were issued between August 2013 and December 2013 and it was found that in all five cases the cheque had been posted to the cashbook and had been cashed by the supplier.
- A sample of credit notes that were received between August 2013 and January 2014 was selected and it was found that in all ten cases, the credit note had been appropriately authorised.

We have raised two recommendations with regards to the application of the control framework:

- A sample of three purchases made between August 2013 and December 2013 valued between £5,000 and £20,000 was selected and it was found that in all three cases quotes had not been retained. A sample of three purchases subject to tender was also selected and in one case only one quote had been obtained.
- A list of supplier amendments could not be generated at the time of the audit and therefore it could not be confirmed if the correct amendment had been made and that the amendment was bona-fide.

1.3 Scope of the Review

The scope of this review was to:

- Evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion; and
- Confirm that control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively.

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

Areas for Review:

- Ordering and authorisation, including transactions without orders.
- Quotes, tenders and Value for Money (VfM).
- Setting up and use of suppliers.
- System access.
- Payment process.
- Credit notes.

Limitations to the scope of the audit:

- We have not commented on whether VfM has been achieved, only whether processes are in place which seek to obtain value for money.
- All testing was completed on a sample basis therefore we cannot provide assurance that all transactions are legitimate and comply with the Financial Regulations.
- We have not confirmed that the Procurement Strategy/ procedures in place are appropriate to meet the needs of all stakeholders.
- Our work does not provide an absolute assurance that material errors, loss or fraud do not exist.

The approach taken for this audit was a System-Based Audit.

1.4 Recommendations Summary

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Our recommendations address the design and application of the control framework as follows:

	Priority		
	High	Medium	Low
Design of control framework	-	-	-
Application of control framework	-	2	-
Total	-	2	0

The recommendations address the risks within the scope of the audit as set out below:

Area	Priority		
	High	Medium	Low
Ordering and authorisation, including transactions without orders.	-	-	-
Quotes, tenders and Value for Money.	-	1	-
Setting up and use of suppliers.	-	1	-
System access.	-	-	-
Payment process.	-	-	-
Credit notes.	-	-	-
Total	-	2	-

1.5 Additional Feedback

We have included some comparative data to benchmark the number of recommendations made, as shown in the table below. In the past year, we have undertaken 15 audits of a similar nature in the sector.

Level of Assurance	Percentage of Reviews	Results of this Audit
Green	60.00%	✓
Amber	33.33%	
Red	6.67%	

Recommendations	Average number in similar audits	Number in this audit
Recommendations made	2.33	2

2 Action Plan

The priority of the recommendations made is as follows:

Priority	Description
High	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Medium	
Low	
Suggestion	These are not formal recommendations that impact our overall opinion, but used to highlight a suggestion or idea that management may want to consider.

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
1	The College should obtain the minimum number of required quotes for purchases as per the Procurement Procedures. Where only a single supplier is available, this should be recorded including reasons why only a single supplier is available.	Medium	N	Given the Procurement Capability Assessment which is already carried out by APUC, and the use of Framework Agreements for Scottish Colleges, we do not think this is necessary for lower value purchases.		
2	Finance should retain all supplier amendment notifications in a separate file as evidence that the correct amendment has been made and that the amendment is bona-fide.	Medium	Y	Supplier amendments are currently retained with invoices, but amendments will now be filed in a central file in the finance records.	28.02.14	Finance Manager/ Senior Finance Assistant

3 Findings and Recommendations

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 audit testing undertaken.

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
Area 1: Quotes, tenders and Value for Money.					
1	<p>The College use the following limits in order to obtain VfM:</p> <ul style="list-style-type: none"> For orders between £5,000 and £20,000, three quotes are required within a short period of time; and For orders between £20,000 and £50,000, three quotes are required within three weeks of advertising. 	Yes	<p>A sample of three purchases made between August 2013 and December 2013 valued between £5,000 and £20,000 was selected and it was found that in all three cases, quotes had not been retained on file and the reasons behind that had not been evidenced.</p> <p>Subsequent discussion with the Senior Finance Assistant confirmed that the three purchases were specialist and therefore quotes were not needed.</p> <p>Without obtaining and retaining quotes/tenders for high value purchases the College may not be receiving best VfM and as a consequence be paying more than they should be for goods and services.</p> <p>Through a review of the Purchase Ledger daybook from August 2013 until December 2013, it was confirmed that there had been no purchases between £20,000 and £50,000 that required three quotes. As a result, this could not be tested further.</p>	The College should obtain the minimum number of required quotes for purchases as per the Procurement Procedures. Where only a single supplier is available, this should be recorded including reasons why only a single supplier is available.	Medium

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
2	In order to obtain VfM, orders over £50,000 are subject to tender.	Yes	<p>A sample of three purchases made between August 2013 and December 2013 valued over £50,000 was selected and it was found that:</p> <p>In two cases, tenders had been obtained and the most appropriate choice had been made based on VfM.</p> <p>For the one remaining case, the purchase was for specialist equipment as per discussions with the Senior Finance Assistant and therefore only one supplier was sought but this was not evidenced.</p> <p>Without obtaining and retaining quotes/tenders for high value purchases the College may not be receiving best value for money and as a consequence be paying more than they should be for goods and services.</p>	See recommendation 1	
Area 2: Setting up and use of suppliers.					
3	<p>Supplier amendments are confirmed using the original contact details.</p> <p>Once confirmed Resource is updated to confirm the amendment has been made and is bona-fide.</p>	Yes	<p>Discussion with the Finance Manager and Senior Finance Assistant confirmed that when a supplier amendment notification was received, it was processed and noted on Resource after contacting the supplier using original contact details to confirm the change was bona-fide. However, the original notification was not retained.</p> <p>An example of an amendment was retained on file as a list of amendments could not be generated at the time of the audit (January 2014).</p> <p>There is a risk to the College that by not retaining original notifications, bank details could be changed to those of phantom accounts leading to financial loss for the College.</p>	Finance should retain all supplier amendment notifications in a separate file as evidence that the correct amendment has been made and that the amendment is bona-fide.	Medium

Dumfries and Galloway College

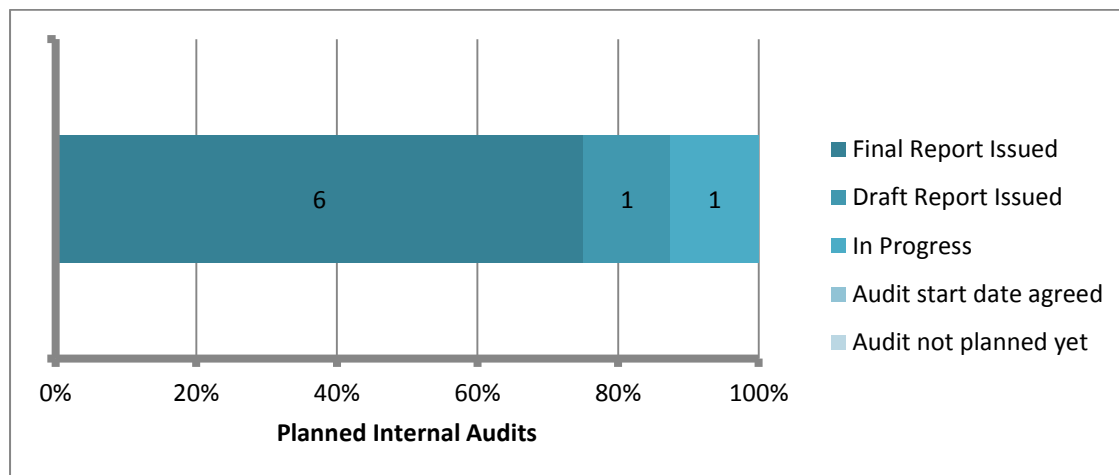
Internal Audit Progress Report

Audit Committee meeting: 11th March 2014

Introduction

The internal audit plan for 2013/14 was approved by the Audit Committee on 17 June 2013. This report provides an update on progress against that plan and summarises the results of our work to date.

Summary of Progress against the Internal Audit Plan



Assignment <i>Reports considered today are shown in bold italics</i>	Status	Opinion	Actions Agreed (by priority)		
			High	Medium	Low
Audits to address specific risks					
Student Support Funds (1.13/14)	FINAL		-	-	-
Student Activity (2.13/14)	FINAL		-	-	-
Reclassification as a public body	in progress	Advisory			
Core Assurance					
<i>Income and Debtors (4.13/14)</i>	<i>FINAL</i>		-	2	1
<i>Procurement and Payments (5.13/14)</i>	<i>FINAL</i>		-	2	-
Other Internal Audit Coverage					
VFM - Work Based Learning (6.13/14)	draft issued 3 March 2014	Advisory			
<i>VFM – Open Learning (3.13/14)</i>	<i>FINAL</i>	<i>Advisory</i>	-	3	-
<i>Follow Up (7.13/14)</i>	<i>FINAL</i>	<i>Good Progress</i>	-	4	-

Other Matters

Planning and Liaison:

We have attended several meetings with management across the organisation in the period to scope individual audit assignments for 2013/14.

Internal Audit Plan 2013/14 - Change Control:

Action	Date	Agreed By
<p>Student Journey – this was originally included in the plan as a potential area for consideration however following discussions with the Audit Committee in September and with management it was agreed that this allocation of days would be kept as contingency.</p> <p>Since the last Audit Committee we have held discussions with management and agreed to use these dates to extend the scope and coverage of the two Value For Money reviews.</p>	February 2014	<p>Karen Hunter, Finance Manager</p> <p>Jannette Brown, Assistant Principal</p>

Assurance on Design of Controls / Compliance with Controls:

Design of Controls	Red			
	Amber			
	Green	1	2	
		3	4	
		Green	Amber	Red
Compliance with Controls				

1 Student Support Funds

2 Student Activity

3 Procurement and Payments

4 Income and Debtors

Internal Audit Performance

Assignment	Debrief date	Draft report issued	Management responses received	Final report issued
Student Support Funds (1.13/14)	15 Aug 2013	23 Aug 2014	12 Sep 2013	12 Sep 2013
Student Activity (2.13/14)	21 Aug 2013	23 Aug 2014	12 Sep 2013	12 Sep 2013
VFM – Open Learning (3.13/14)	Original 29 Nov 2013 Revised 13 Feb 2014	Original 20 Dec 2013 Revised 27 Feb 2014	Original 23 Jan 2014 Revised 3 Mar 2014	3 Mar 2014
Income and Debtors (4.13/14)	30 Jan 2014	6 Feb 2014	25 Feb 2014	26 Feb 2014
Procurement and Payments (5.13/14)	30 Jan 2014	6 Feb 2014	25 Feb 2014	26 Feb 2014
VFM - Work Based Learning (6.13/14)	13 Feb 2014	3 Mar 2014		
Follow Up (7.13/14)	13 Feb 2014	3 Mar 2014	4 Mar 2014	4 Mar 2014
Reclassification as a public body				

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Institutional Sustainability 2013-14

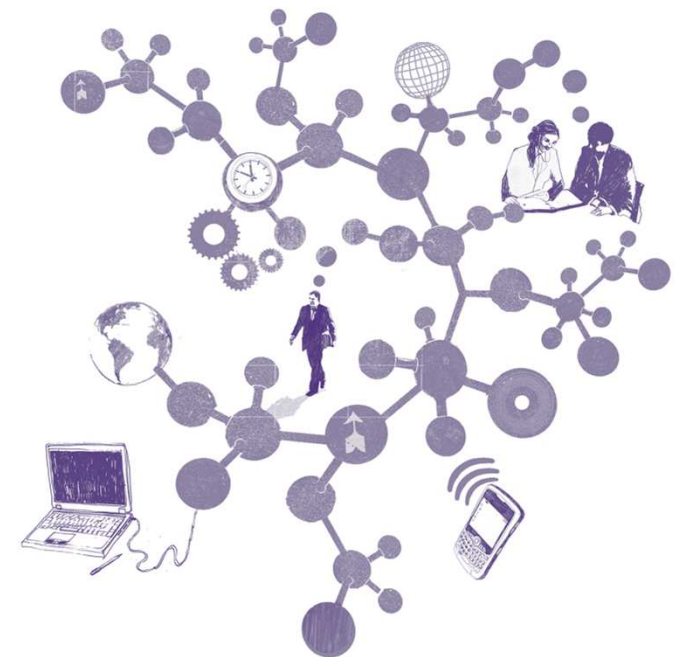
						F = F+GP A = Audit Q = Q+C = Staff	S E = External I = Internal
7	Effective risk management and scenario planning arrangements	Internal, external audit reports	L	Recent audit confirmed sound practice with revisions to existing arrangements planned in line with audit recommendations. Scenario planning undertaken at Board and fed into Strategic Plan. Scenario planning carried out regularly by SMT throughout the year and appropriate actions implemented	1	A	I
21	Committed and effective governing body with appropriate mix of skills and experience	Board recruitment, induction, training and succession planning arrangements, audit reports	M	Full Board membership with committed members actively engaged in decision making. Membership refreshed as vacancies arise and generally attract good quality applicants. Succession planning enhanced through use of co-opted members overlapping with those retiring to familiarise new members with college processes, including training and induction. However there is a potential risk that in future we might not attract the desired skill mix or equality/diversity mix. Current Review of Governance likely to result in increased focus/new arrangements.	2	A	E
38	Effective systems to monitor enrolments	Performance against WSUMs activity target	L	Comprehensive electronic and paper based processes effectively monitor the performance against WSUMs activity not only of the college as a whole but down to course level. The information is virtually real-time and interrogation of this data occurs regularly with corrective actions taking place wherever necessary	1	A	I

Strategic Plan 2008-2014 Risk Register

Risk No.	Strategic Aim	Risk Description	Inherent Risk			Controls in Place	Assurances	Internal/ External	Residual risk			Further Action	Risk Owner
			Likelihood	Impact	Total				Likelihood	Impact	Total		
1	SA 6	Unable to achieve WSUM target	2	4	8	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 SMT on a weekly basis 2. Reviewed by SMT on a weekly basis 3. Review carried out by HR and presented to SMT for consideration/approval. 4. Internal audit report presented to audit committee	Internal / External	1	3	3	No further action.	JB
2	SA 1, 3 & 6	Loss of collaborative partnership arrangements	2	3	6	1. Policy of limiting dependence on any one partnership. 2. Regular reporting of partnership issues at SMT. 3. Constant scanning to identify new potential partnerships.	1. Currently not specifically reviewed 2. SMT meetings/minutes 3. SMT meetings/minutes	Internal	1	2	2	No further action. Although policy not specifically reviewed, any issues would be identified through regular reporting at SMT. Internal audit review planned for 14/15	SMT
3	SA 1 & 6	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, reported monthly to SMT. 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. SMT meetings/minutes 2. SMT 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	JB
4	SA 1, 2 & 6	Review of funding methodology impacts on financial sustainability	4	4	16	1. Principal member of Working Group on Funding for the sector. 2. Assistant Principal (LS) college lead in pilot and parallel running of new funding methodology 3. Continuous review of curriculum and delivery by SMT to ensure that adverse impact minimised.	1. Feedback to SMT and Board meetings 2. Reports to Q&C committee	Internal	3	3	9	1. Parallel running of new methodology in 14/15 with full implementation starting 15/16. Internal audit review planning for 15/16	CAT
5	SA5 & 6	Unable to agree Pay Award	2	4	8	1. Detailed financial planning undertaken and approved by Finance and General Purposes Committee to ensure "affordability" of any offer. 2. Clear and well established negotiation processes in place with recognised unions. 3. Government suggested maximum 1% pay awards for 2013/14 and 2014/15.	1. F&GP meetings/minutes 2. Feedback to SMT and the Board 3. Included in budget which is monitored and reported through F&GP	Internal	2	2	4	Monitor Grant settlement and maintain dialogue consultations with unions	HP
6	SA 1,2,3,4,5,6,7	Disruption to business continuity due to Influenza pandemic, terrorism, fire or other disaster	2	4	8	1. Business continuity plan in place (check audit report recs)	1. Reviewed by SMT and report to Board 2. Internal audit review carried out in 11/12	Internal / External	2	2	4	Implementation of audit recs	SMT
7	SA 1 & 6	Failure to maintain student numbers	2	4	8	1. Strategies in place to improve retention. 2. Self evaluation process. 3. Poorly performing programmes removed from the curriculum.	1. Monitored at course level and review by SMT. Exception reporting to Board. 2. Monitored through self evaluation process and reported to SMT and Q&C committee	Internal	1	3	3	Internal audit review planned 13/14	SMT
8	SA 6	Loss of 'charitable' status	2	4	8	1. Internal control and governance arrangements in place to meet requirements of OSCR. 2. Work with Scotland's Colleges to influence and respond to any potential change to legislation affecting charitable status.	1. External audit coverage as part of annual review of financial statements.	External	1	2	2	No further action	CAT
9	SA 6	Downturn impacts on recruitment of Modern Apprentices	2	3	6	1. Maintain regular dialogue with training bodies. 2. Alter curriculum delivery to accommodate low numbers as and when required. 3. Contracts with relevant sector skills bodies and SDS in place.	1. Curriculum plans approved by SMT and Q&C 2. Curriculum monitor contract on ongoing basis	Internal	2	2	4	Reduction in demand and income to be balanced by staffing reductions. Planned internal audit on strategic planning in 14/15	SAW /CAT
10	SA 1,2,3,4,5,6,7	Reduction in SFC Core Grant	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 SMT and Q&C 2. Budget approved by the Board	Internal	2	4	8	Reduce curriculum provision in line with funding and implement cost savings. Seek to increase non SFC income.	SMT
11	SA 6 & 7	Changes to structure of FE colleges in Scotland adversely impacts on DAGCOL	2	4	8	1. D&G now confirmed as a single college region. Uncertainty still exists about future Crichton relationship and impact of being second smallest region in Scotland. Current indications are that college is region earmarked for growth.	1. Scottish Government confirmed D&G as a single college region 2. Principal member of Crichton Leadership group and feeds back to SMT and Board	Internal / External	2	3	6	Proactive involvement of SMT and BoM in process	SMT
12	SA 6 & 7	ONS reclassification of college impacts on governance, financial arrangements and ability to develop capital projects	3	4	12	1. Senior Management and Finance Manager representation at relevant briefings and ongoing monitoring of changes	1. Feedback to SMT and Board	Internal	3	3	9	External audit will review any changes to accounting treatments	SMT
13	SA 3,5 & 6	Facilitate and support R&D in small and micro-business through the provision of facilities, equipment and infrastructure to help businesses develop new commercial products and processes	3	4	12	1. Detailed monitoring undertaken on a daily basis by Assistant Principal - Monitoring by and reporting to Lead Partner - Extra support provided by Assistant Principal to ensure efficient start up of CREST project	1. Feedback to SMT and Board	Internal / External	2	4	8	No further action	IPB

Financial Statement Audit Findings for Dumfries and Galloway College

Year ended 31 July 2013



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

01. Executive summary

02. Financial results

03. Audit findings

04. Governance

05. Performance

06. Fees non audit services and independence

07. Communication of audit matters

Executive summary

Introduction

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP, Dumfries & Galloway College ("the College") and the Auditor General of Scotland. The purpose of this report is to highlight the key issues arising from the audit of the College's financial statements for the year ended 31 July 2013.

Under the Audit Scotland Code of Audit Practice we are required to report whether, in our opinion, the College's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the Statement of Recommended Practice: accounting for further and higher education (the SORP).

This report meets the mandatory requirements of the International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee.

Scope of our work

During the course of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan in May 2013.

We received draft financial statements and a number of accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Financial Statements Opinion

We have issued an unmodified opinion on the College's 2012-13 financial statements.

We have identified no material adjustments.

Summary of Key Findings

Reporting area	Our Summary
Financial Statements	<ul style="list-style-type: none">■ We have issued an unmodified opinion on the financial statements of Dumfries & Galloway College■ We identified no material adjustments during our audit.
Financial position	<ul style="list-style-type: none">■ The financial statements record a net surplus on the provision of services of £34k (2012: surplus of £24k).■ At 31 July 2013, the College had a total reserves balance of £11,060k (2012: £18,792k), of which £4,314k is available as a general reserve (2012: £3,409k).
Internal controls	<ul style="list-style-type: none">■ We reviewed the Statement of Corporate Governance and were satisfied that disclosures are in line with our knowledge of the College and that the statement is underpinned by a robust assurance framework, developed with internal audit.■ We identified no significant deficiencies in internal controls during our audit.

Looking forward

Matters arising from the financial statements audit and review of the College's internal control arrangements have been discussed with the Chairman of the Audit Committee.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
December 2013

Section 2: Financial Results

01. Executive summary

02. Financial results

03. Audit findings

04. Governance

05. Performance

06. Fees non audit services and independence

07. Communication of audit matters

Financial Results

Introduction

The College has reported a relatively stable financial position in the current financial year.

Key Areas of Expenditure

The College reported expenditure of £12,304k in the current financial year. The table below shows a breakdown of this expenditure figure

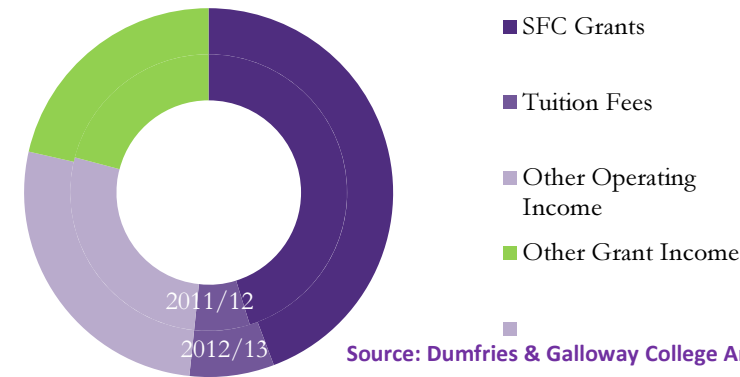
	2013	2012
	£'000	£'000
Staff Costs	6,957	6,840
Depreciation	1,405	1,413
Other operating expenses	3,942	3,862
	12,304	12,115

Source: Dumfries & Galloway College Annual Report 2012/13

Staff costs, depreciation and other operating expenses are broadly in-line with the prior year, as expected, following no major changes to the operations of the College.

Income for the year

The College receives income from multiple sources as shown in figure 1 below. It is clear from this analysis that the main source of funding is grants from the Scottish Funding Council



Source: Dumfries & Galloway College Annual Report 2012/13

Income is in-line with the prior year with an overall increase of £200k. There has been a small reduction in SFC grant income following budget cuts. The slight drop in this revenue source has been countered by an increase in Tuition Fee income. There has been an increased number of students on work-based courses and increased further study trips, hence a higher level of funding received by the College. Additionally, the Skills Development Scotland Employability contract has increased partnership income in 2012/13.

Financial Results

Financial Position

The College's balance sheet reflects a positive financial position with general reserves of £38,562k.

	2013	2012
	£'000	£'000
Non- Current Assets	41,308	50,927
Current Assets	5,174	4,745
Current Liabilities	(2,691)	(2,550)
Non current liabilities	(5,229)	(6,024)
Total net assets	38,562	47,098

Source: Dumfries & Galloway College Annual Report 2012/13

The most substantial change to the balance sheet in the year 2012/13 is the revaluation of the College's land and buildings. This resulted in a realised revaluation loss of £8,226k.

Looking Forward

Dumfries and Galloway College's objectives remain broadly similar to those in 2012/13 and achieving the targets set out in the Outcome Agreement for 2013/14 will be the main focus for the Board and Senior Management Team going forward. The public finances remain challenging, as does the ability to prepare students for the transition into employment, with youth unemployment remaining a key political issue.

There will be considerable pressure on the finance team to make the transition to the 31 March year end timetable, as well as transferring to a new financial reporting framework.

The Scottish Funding Council's move to a three year funding allocation cycle from 2014/15 should make it easier for Dumfries and Galloway College to plan more accurately.

Section 3: Audit findings

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Audit Findings

Introduction

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, which was issued to the College in May 2013.

We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Audit opinion

We have issued an unmodified opinion concluding that the financial statements are prepared in accordance with Part VII of the Local Government (Scotland) Act 1973 and the Code. Our audit opinion is set out in Appendix A.

Changes to the audit plan

During the conduct of our audit, we have not had to alter or change our audit plan issued in May 2013.

Table 1: Audit findings against significant risks

Under International Standard on Auditing (ISA) 315, we are required to identify and assess the risks of material misstatement within the College's financial statements. We identified those areas that we consider to risks within our Audit Plan 2012-13. We outline our response to the significant risks of material misstatement which we identified in the Audit Plan below.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	Existence and occurrence of tuition fee revenues	<ul style="list-style-type: none"> • Review of the controls in place over the tuition revenues system • Substantive testing of a sample of 25 transactions, with no issues arising. • Analytical review of tuition and fee revenue. 	Our audit work on controls and substantive testing on income has not identified any issues in respect of tuition fee revenues.
2.	Completeness of employee remuneration accruals	<ul style="list-style-type: none"> • We completed detailed substantive testing of the payroll processes on a sample basis at the year end. This testing provided assurance that payroll processes were operating in line with requirements. • Additional testing was conducted at the year end to provide assurance over the figures in the accounts. This testing included analytical analysis of the detailed payroll data and of the reported balances. • Analytical review of employee remuneration accruals. 	We gained sufficient assurance over payroll processes to conclude that there are no material misstatements.
3.	Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	<ul style="list-style-type: none"> • Review and testing of revenue recognition policies • Testing of material revenue streams • A review of unusual significant transactions 	Our audit work has not identified any issues in respect of revenue recognition.

Table 1: Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
4.	Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls	<ul style="list-style-type: none"> Review of accounting estimates, judgements and decisions made by management Testing of journals entries Review of accounting estimates, judgements and decisions made by management A review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>
	Risks identified during audit fieldwork	Work completed	Assurance gained and issues arising
1.	Accounting for VAT under the Lennartz Scheme We understand the College implemented to delay the payment of VAT in relation to campus development expenditure. We further understand that the board of directors is assessing whether to opt-out of the scheme.	<ul style="list-style-type: none"> We reviewed and tested the accounting for VAT against HMRC's guidance on the Lennartz Mechanism of accounting for VAT. 	<p>Our audit work has not identified any issues in relation to the Lennartz scheme.</p>
2.	Dispute with Miller Construction From review of the financial statements, it was noted that a retention of £120k owed to Miller Construction was still held at the year end. A further amount of £104k relating to a gas charge for the property from 2008/09 is also held within accruals at the year end. We understand this was originally paid by Miller Construction, as it had not been invoiced directly to the College.	<ul style="list-style-type: none"> We have reviewed the documentation for the retention and the calculation of the gas accrual. We have discussed the progress of the dispute with management. 	<p>Based on discussions with yourselves, we understand an agreement with Miller Construction is imminent. Once a satisfactory conclusion is reached, we understand the retention monies will be repaid to Miller Construction together with payment of the outstanding gas charges.</p>

Table 2: Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Income from tuition fees is recognised in the year in which it is receivable and includes all fees chargeable to students or their sponsors Income from grants, contracts and other services rendered is included to the extent of completion of the contract or service concerned Income from donations is credited to the income and expenditure account in the year in which it is received, unless specific restrictions apply Income from short-term deposits and endowments is credited to the income and expenditure account in the period in which it is earned 	<ul style="list-style-type: none"> The revenue recognition policies are appropriate under the SORP In a small number of cases, judgements are made regarding levels of accrued income, and no issues have been found with this from the audit. The draft accounts outlined an appropriate revenue recognition policy as part of Note 1. 	●

Assessment

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

Table 2: Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> – useful life of assets and capital equipment – pension fund valuations and settlements – revaluations – impairments – provisions 	<p>For all material items, we have reviewed:</p> <ul style="list-style-type: none"> the appropriateness of your policies under the SORP the extent of judgement involved the potential financial statement impact of different assumptions the adequacy of disclosure of the accounting policy <p>We have no concerns to highlight to the Audit Committee.</p>	●
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the College's policies against the requirements of the SORP 	<ul style="list-style-type: none"> Our review of accounting policies has highlighted that additional disclosure regarding operating leases is required under the SORP This issue is not significant enough to have a material impact on the financial statements, however for best practice we have suggested suitable wording for an additional accounting policy 	●

Assessment

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

Our findings on internal controls

The purpose of an audit is to express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. During the course of our audit, we have concluded that there are no deficiencies in internal control of sufficient importance to merit being reported to you in accordance with auditing standards.

Table 3: Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been received from the College.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any material related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the College's decision to prepare the financial statements on a going concern basis.

Looking forward

Key changes for 2013-14

In this section we highlight the key changes affecting the financial statements in 2013-14.

Reclassification of Colleges

The Further and Higher Education (Scotland) Act 1992 resulted in a total of 43 institutions being classified as Colleges of Further Education from 1 April 1993. These institutions have operated within the Non-Profit Institutions Serving Households section since this date. In October 2010 the UK Office of National Statistics made a decision to reclassify further education colleges to central government bodies from 1 April 1993.

This decision will have a significant impact on the College financial reporting arrangements. The key changes will be as follows:

- the year end will move from 31 July to become in line with central government year end of 31 March;
- the accounting framework will change from the SORP to the HM Treasury Financial Reporting Manual which operates under International Financial Reporting Standards; and
- the governance framework will be required to be compliant with the Scottish Public Finance Manual.

The College will have to consider the implications of this decision and how the changes can be managed to deliver the reporting requirements.

Section 4: Governance

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Governance

Introduction

The College's governance and risk management arrangements continue to operate effectively.

Financial Monitoring

The College has a responsibility to monitor and control the financial position. In order to gain assurance over the adequacy of the processes we reviewed the budgeting and treasury management processes in place and found no issues.

Regionalisation

As a result of the Griggs report on the Review of Further Education Governance in Scotland a number of institutions have merged on a regional basis.

Due to its geographic location, Dumfries and Galloway College did not merge as part of this process.

We have undertaken a review of governance arrangements in place at the College as part of our audit work. We identified no weaknesses in the entity level controls.

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. Our enquiries of management and the College's internal auditors found that there were no internal frauds during 2012-13. We conducted testing on journal entries and related party transactions to highlight any unusual transactions. There were no issues arising from this testing.

Section 5: Performance

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Performance

Introduction

Outcome agreements were introduced by the Scottish Funding Council (SFC) in Academic Year 2012-13, and set out what colleges and universities plan to deliver in return for their funding from SFC. Their focus is on the contribution that the colleges and universities make towards improving life chances, supporting world-class research and creating sustainable economic growth for Scotland.

The College have a range of objectives and activities set by the SFC as follows:

- compliance with the terms of the Financial Memorandum between the SFC and the College
- maintaining the provision of acceptable quality and developing and implementing a satisfactory quality improvement strategy
- following public sector pay policy set by HM Treasury
- provision of data returns requested by the SFC to the specific standards and deadlines set
- discussion with and advanced approval from the SFC before any of the capital maintenance funds are spent on items of specialised equipment to support the curriculum
- the College must notify Skills Development Scotland (SDS) within five working days of a young person leaving

Section 6: Fees, non audit services and independence

- 
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 - 06. Fees non audit services and independence**
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Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm that there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Fee payable to Audit Scotland	<u>13,800</u>	<u>13,800</u>
Total audit fees	13,800	13,800

Fees for other services

Service	Fees £
None	Nil

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.

Section 7: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

This Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Audit Scotland.

We have been appointed as the College's independent external auditors by the Auditor General for Scotland, the body responsible for appointing external auditors to the Further Education sector in Scotland. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by Audit Scotland on behalf of the Auditor General and includes nationally prescribed and locally determined work. Our work considers the College's key risks when reaching our conclusions under the Code.

It is the responsibility of the College to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the College is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion

We anticipate we will provide the College with an unmodified audit report

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

I have audited the financial statements of [insert name of body] for the year ended 31 July 2013 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 Income and Expenditure Account and Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the Board of Management and auditor

As explained more fully in the Statement of Responsibilities of the Board of Management, 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. My 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 me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am 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 body'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, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my 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 body's affairs as at 31 July 2013 and of its **surplus [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.

Opinion on regularity

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

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

Appendix B: Draft Letter of Representation

Grant Thornton UK LLP
7 Exchange Crescent
Conference Square
Edinburgh
EH3 8AD

Dear Sirs

Dumfries and Galloway College: Financial Statements for the Year Ended 31 July 2013

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 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education Institutions (the SORP). I confirm that to the best of my knowledge and belief having made such inquiries as I considered necessary for the purpose of appropriately informing myself:

Financial Statements

- i. I have fulfilled my responsibilities, as set out in the Statement of Responsibilities for the Statement of Accounts, for the preparation of the financial statements in accordance with the Financial Memorandum agreed between the Scottish Funding Council and the College. In particular the financial statements give a true and fair view of Dumfries and Galloway College's state of affairs as at the 31 July 2013 and of its income and expenditure for the financial period.
- ii. I acknowledge my responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- iii. Significant assumptions used by me in making accounting estimates, including those measured at fair value, are reasonable.
- iv. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the SORP.
- v. All events subsequent to the date of the financial statements and for which the SORP requires adjustment or disclosure have been adjusted or disclosed.
- vi. The financial statements are free of material misstatements, including omissions.

Information Provided

I have provided you with:

- i. access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- ii. additional information that you have requested from me for the purpose of your audit; and
- iii. unrestricted access to persons within the entity from whom you determine it necessary to obtain audit evidence.

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

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

I have disclosed to you my knowledge of fraud or suspected fraud affecting the entity involving:

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

I have disclosed to you my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

I 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.

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

Yours faithfully

XXX

Chief Finance Officer



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