

## Audit Committee

Wednesday 14 May 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 11 March 2013 (attached)
- 4 Matters Arising

### Standing Items

- 5 Internal Audit Reports
  - 5.1 VfM - Workbased Learning (attached)
- 6 SFC Trust: Transfer of Funds (verbal update)
- 7 Institutional Sustainability (attached)
- 8 Strategic Risk Register (attached)

### Business

- 9 External Audit Plan (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 14 May 2014 at 12.30 pm in Room 2009

**Present:** Hugh Carr (Chair)  
Delia Holland  
Stuart Martin

**In attendance** Carol Turnbull, Principal  
Karen Hunter, Finance Manager  
Jannette Brown, Assistant Principal Learner Services and Secretary to the Board  
Lindsay-Anne Straughton, Baker Tilly (Item 5.1 only – by telephone)  
Angela Pieri, Grant Thornton  
Susan Sutherland, PA to the Principal

#### 1 Apologies

Apologies for absence were intimated on behalf of Sandy Burgess, and Karen McGillivray-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 11 March 2014 was approved.

#### 4 Matters Arising

None.

### Standing Items

#### 5 SI: Internal Audit Reports

Lindsay-Anne Straughton, on behalf of Baker Tilly, Internal Auditor, spoke (by telephone) to the report which had been distributed.

She highlighted the three main findings, and (medium) recommendations for action, all of which had been accepted by management.

The Committee noted the report and discussed how the College ensured that it remained competitive. The Principal advised that the Business Development Manager and CTS Team were continually reviewing the method and costs of courses offered. She added that the College was trying to reduce reliance on SFC funding that that this was difficult given the make-up of businesses in the Region.

#### 6 SFC Trust: Transfer of Funds

The Assistant Principal, Learner Services (APLS) reported that the College had transferred funds to the Scottish Colleges Foundation, and had subsequently made a submission for return of £2.12M to fund the hospitality development. She had received verbal confirmation that morning that the bid had been successful.

The Committee noted the position.

## **7 SI: Institutional Sustainability**

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

## **8 SI: Strategic Risk Register**

The AOLS spoke to the report which had been distributed, and highlighted one addition to the SRR. Item 14 referred to a health and safety incident involving the quality of external glass balustrades. All balustrades had since been tested and secured and would be monitored by the Assistant Principal, Estates. As a result, a full building survey would be commissioned to identify any immediate action and to inform an ongoing planned preventative maintenance scheme, the cost of which would be paid from retention monies.

The Committee noted the report.

## **Business**

### **9 External Audit Plan**

Angela Pieri, on behalf of Grant Thornton, spoke to the External Audit Plan for the period ending 31 March 2014, which had been distributed.

The Plan confirmed the audit strategy in view of local and national key developments affecting the College, especially in terms of ONS reclassification and the change of date for year-end accounting.

In terms of regularity opinion, the Principal and Secretary to the Board advised that they had met with the Trustees of the Scottish Foundation Trust to gain assurance that public funds were being used only for approved purposes. Indeed the constitution of the Trust confirmed that any monies donated by Dumfries and Galloway College would only be used for further education in Dumfries and Galloway.

The Committee was advised that SFC had issued three options for the accounting of Grant Income following the change to year end, but no guidelines on which to adopt. The Finance Manager had prepared a paper detailing the College's decision to adopt the 8/12 option, which would be issued to Committee Members for information.

Members noted the report and planned audit, to commence on 23 June 2014.

### **10 Any Other Business**

None.

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

The next meeting of the Committee would take place on 19 August 2014 at 2.00 pm.

## 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 11<sup>th</sup> 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.

# Dumfries and Galloway College

[Internal Audit Report \(6.13/14\)](#)

FINAL

Value for Money – Work Based Learning

14 March 2014

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Debrief meeting	12 February 2013	Auditors	Patrick Green, Head Of Internal Audit
Draft report issued	3 March 2014		Lindsay-Anne Straughton, Assistant Manager Debbie Girvan, Auditor
Responses received	14 March 2014	Client sponsor(s)	Janette Brown, Assistant Principal
Final report issued	14 March 2014	Report distribution	Janette Brown, Assistant Principal Karen Hunter, Finance Manager Helen Pedley, Director of HR

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 – Work Based Learning (WBL) 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 has a portfolio of 28 Work Based Learning courses monitored by two Work Based Learning Coordinators. The courses are broken down into the following nine subject areas:

- Health and Social Care;
- Engineering;
- Motor Vehicle;
- Hospitality;
- Hairdressing;
- Child Care;
- Customer Service;
- Facilities Service; and
- Business Administration.

The College have not assessed the actual cost of providing Work Based Learning courses since an exercise was undertaken for 2011/12, therefore we were requested by management to carry out this review in order to provide information which would enable the College to consider whether its current fees charged for Work Based Learning courses are the most appropriate and represent the best value for money.

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

- The Director of HR;
- The Finance Manager;
- The two Work Based Learning Coordinators; and
- The HR Officer.

## 1.2 Conclusion

Our review Value for Money – Work Based Learning identified the following:

- The College do not perform a regular review of the actual cost they incur to provide Work Based Learning courses including the impact of inflation and any salary increases that may have occurred throughout the year.
- In addition, the fees charged for each course were based on the costs calculated in 2011/12 and considered market factors such as competitor prices. However, this exercise has not be re-performed to take into consideration any cost changes or changes to competitor prices since the exercise was undertaken in 2011/12.
- The Work Based Learning staff are made up of salaried staff and those that complete timesheets for Work Based Learning hours undertaken. The timesheets identify each student seen and for what length of time and this is used to update Gold Vision so that actual hours can be monitored against the expected hours for each student. However those staff that are salaried and only work on Work Based Learning do not complete timesheets and as a result the College cannot determine the actual staff time required per student for each course.

- Travel expenses were reviewed as part of this review and it was identified that expenses are allocated on the Finance system to each staff member's primary role as recorded on the system. In 2012/13 there were three members of the Work Based Learning team that had other roles outside of the department. Through review it was identified that they had not claimed any expenses for 2012/13, however there is a risk that if they were to claim travel expenses that these may not be correctly allocated to Work Based Learning.
- There are registration fees associated with each Work Based Learning course; however it was identified that these are allocated to a central code rather than to each department. Discussions with Student Records established that this was due to difficulties in identifying the relevant department for each registration due to the limited information provided by the Scottish Qualifications Authority (SQA), however spot checks were carried out to confirm the correct fees were being charged.
- If the College were to not receive SUM's for Work Based Learning courses then the actual cost of providing the courses would exceed the income generated by approximately £69,600 (this does not include the cost of registration fees). The cost of overheads have not been used in this calculation or throughout the scope of this review as the College would incur overhead costs regardless of whether they provided Work Based Learning courses or not.

In conclusion, Dumfries and Galloway College does not have sufficient management information regarding the cost of Work Based 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.

### 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 Work Based 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 captures and measures the costs and income associated with Work Based 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 can 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.
- We do not endorse any particular method of Work Based Learning provision.
- We have not provided an opinion on the quality of the College's Work Based Learning provision.
- This review focused only on the costs and income associated with Work Based 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.
- 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 Work Based Learning activities.	-	3	-
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	-
<b>Total</b>	-	<b>5</b>	-

## 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	<p>The College should perform a comprehensive review of the costs to provide Work Based Learning (WBL) at the College to ensure it is based on current and reliable information.</p> <p>This information should then be used in conjunction with a review of the market to review and update the fees charged for each of the WBL courses.</p>	Medium	Y	Agreed.	31 March 2014	Helen Pedley, Director of Human Resources
2	<p>The College should develop a method of recording Work Based Learning contact for staff that do not complete timesheets. This should include which students have been seen, the length of time and where relevant, the course, so that this can be updated on Gold Vision.</p> <p>This information can then be used to monitor whether costings are accurate and can be used to inform future costing exercises.</p>	Medium	Y	The College will adapt the system currently used for timesheet staff to take into account this recommendation	1 August 2014	Helen Pedley, Director of Human Resources

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
3	<p>The College should ensure that all Work Based Learning (WBL) expenses are allocated to WBL on the finance system to enable accurate costs to be identified.</p> <p>The College should investigate how this can be recorded within the system where a member of staff has more than one role. This may be via a manual transfer to the correct code where WBL expenses are claimed or updating the primary role to that which is most likely to incur expenses.</p>	Medium	Y	Agreed.	1 August 2014	Karen Hunter, Finance Manager
4	<p>The College should ensure that all direct costs of providing Work Based Learning are included within their costing exercise and subsequently they should be recorded within the appropriate account on the finance system in order for these costs to be monitored and reviewed.</p> <p>This should include costs such as student registration fees which are currently charged to a central code.</p>	Medium	Y	<p>The registration fee is included in the costing exercise however, registration costs are charged to a central code</p> <p>As the registration costs are all charged to a central code it would involve a lot of work to split costs. A less onerous way is to add a column for registration costs to the downloaded income and expenditure monitoring report</p>	March 2015	Helen Pedley, Director of Human Resources
5	<p>The College should review current processes to identify where cost savings or changes to fees charged for Work Based Learning could be made to ensure that fee income will outweigh the cost of provision should SUM's funding be withdrawn.</p>	Medium	Y	Agreed.	March 2015	Helen Pedley, Director of Human Resources

### 3 Finding and Recommendations

#### 3.1 Assessing how the College captures and measures the costs and income associated with Work Based Learning activities

We established that the College performed a review of the Work Based Learning courses provided for 2011/12, which involved looking at the cost to provide those courses and the amount that should be charged as a fee. As a result of the review, each course was assigned a different fee which was expected to cover the cost of the courses and provide a profit.

It was deemed appropriate for some Work Based Learning course fees to be updated to reflect market conditions such as competitor fees and the prices that employers would be willing to pay for the course.

However, since the review for 2011/12, there has not been another detailed review and no adjustments have been made in order to reflect changing costs including inflation and any salary increases throughout the year.

##### RECOMMENDATION (MEDIUM)

The College should perform a comprehensive review of the costs to provide Work Based Learning (WBL) at the College to ensure it is based on current and reliable information.

This information should then be used in conjunction with a review of the market to review and update the fees charged for each of the WBL courses.

As part of our detailed testing, we reviewed the monthly timesheets for all 18 members of staff who who completed timesheets for Work Based 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 for seven salaried staff who worked only on WBL that there were no timesheets and as such there was no way to accurately identify and record student contact hours on Gold Vision, which is used to monitor actual hours against expected hours. Expected hours were used to calculate the course costs for the 2011/12 costing exercise.

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 Work Based Learning course ran by the College.

##### RECOMMENDATION (MEDIUM)

The College should develop a method of recording Work Based Learning contact for staff that do not complete timesheets. This should include which students have been seen, the length of time and where relevant, the course, so that this can be updated on Gold Vision.

This information can then be used to monitor whether costings are accurate and can be used to inform future costing exercises.

We reviewed the travel expenses for WBL staff and confirmed that these expenses related to staff providing WBL assessments. However, we identified that where a member of staff had more than one role, their primary role was set up on the finance system to allocate any expenses to their primary role.

It was identified that there were three members of staff in 2012/13 who had another primary role. Review of the payroll files identified that although they had travelled for WBL they had not claimed any expenses for 2012/13 due to use of the College's pool car. Costs of the pool cars is not allocated to departments, but are charged to a central code. There is a risk that expenses could be incurred which are not reflected in the costs for the provision of the course.

## RECOMMENDATION (MEDIUM)

The College should ensure that all Work Based Learning (WBL) expenses are allocated to WBL on the finance system to enable accurate costs to be identified.

The College should investigate how this can be recorded within the system where a member of staff has more than one role. This may be via a manual transfer to the correct code where WBL expenses are claimed or updating the primary role to that which is most likely to incur expenses.

### 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

Discussions with the Director of HR identified that during the costing exercise for 2011/12, fees were initially set based on cost plus 20% however this was subsequently amended to reflect external factors in the market such as competitor prices and the level of fees that employers would be willing to pay. A review of fees had not been completed since 2011/12. A recommendation has been raised at 3.1 above.

We established that as part of the costing review for 2011/12 registration fees were included. However, review of the finance system identified that registration costs were charged to a central code and therefore we could not ascertain the value of registration fees for WBL in our calculations.

## RECOMMENDATION (MEDIUM)

The College should ensure that all direct costs of providing Work Based Learning are included within their costing exercise and subsequently they should be recorded within the appropriate account on the finance system in order for these costs to be monitored and reviewed.

This should include costs such as student registration fees which are currently charged to a central code.

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

We established that although the College is making a surplus of approximately £244,000 based on the direct cost (excluding registration fees as these could not be identified) of providing Work Based Learning compared with the income generated from providing Work Based Learning, this would reverse to a deficit of approximately £69,600 if the College were no longer able to claim SUM's. It should be noted that this deficit would be larger once all costs are included within the calculation.

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

## RECOMMENDATION (MEDIUM)

The College should review current processes to identify where cost savings or changes to fees charged for Work Based Learning could be made to ensure that fee income will outweigh the cost of provision should SUM's funding be withdrawn.

## Institutional Sustainability 2013-14

						F = F+GP A = Audit Q = Q+C = Staff	S	E = External I = Internal
	<b>Goals</b>	<i>Suggested Evidence</i>	<i>BoM Chairs Grade</i>	<i>Supporting Evidence</i>	<i>Risk</i>	<i>C'tee</i>		<i>Influence</i>
<b>Financial Strategy</b>								
1	Generate sufficient level of operating surplus to finance other key resources	Operating surplus as % of total income	H	Audited financial statements, annual budgets/Financial Forecast Returns and monthly financial reports. Main Grant Letter. Uncertainty over ability to do this as a result of ONS re-classification.	3	F		I
2	Diversify income streams	Non-SFC income as % of total income	H	External funding bids and projects, CTS income, Training income, Partnership Contracts (e.g. DGHP, Construction Skills) and student income (e.g. SAAS) ( <i>importance has increased due to need to offset SFC funding cuts. Challenge has increased due to Gov policy re international students and impact of downturn</i> )	3	F		I
3	Maintain sufficient cash reserves to deal with unexpected events	Ratio of days cash to total expenditure, current ratio	H	Repayment of Lennartz money has increased degree of risk. ONS reclassification of colleges has had a significant impact on how reserves are now treated	3	F		I
4	Service borrowings	Interest cover, long-term liabilities to total reserves, financing costs, depreciation costs	L	Low risk issue as College currently has no borrowings. Balance sheet Key Performance Indicators demonstrate financial well-being and are reported via monthly financial reports. Would now require ministerial approval (from 1.04.2014).	1	F		I
5	Efficient staff deployment	WSUMs per full-time equivalent (FTE)	M	Staffing levels reviewed on an ongoing basis, quarterly reports to Staffing Committee in relation to Curriculum staff and changes in the FTE of all staff across College. Reports made to BoM re: staffing levels. Approval forms for all recruitment indicating justification for the post.	1	S		I
6	Sound budget setting and financial management arrangements	Internal, external audit reports	H	ONS reclassification of colleges will have significant impact on college financial management arrangements. It will be difficult to compare "like for like" budgets and accounts	3	F		I
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
8	Efficient procurement practices	Delivery of efficiency gains	L	Procurement Capability Assessment provides an independent audit of College practices. Indicators of procurement performance and record of savings made	2	F		I
9	Continuous improvement in business processes	Delivery of efficiency gains	M	Submission of Efficient Government Return identifies savings made each year	3	F		I
	<b>Goals</b>	<i>Suggested Evidence</i>	<i>BoM Chairs Grade</i>	<i>Supporting Evidence</i>	<i>Risk</i>	<i>C'tee</i>		<i>Influence</i>
<b>Other potential goals identified</b>								



## Institutional Sustainability 2013-14

10	Capital Funding	Reduction in capital funding may impact on future ability of college to maintain and develop new capital assets/facilities	M	Capital Expenditure Programme agreed by the Board of Management. Regular capital expenditure monitoring reports. Periodic returns/submission to SFC. Transitional arrangements agreed with SFC to support ERDF projects. Increase in capital funding allocation for 2013/14, but ONS reclassification of colleges may impact on ability to develop future capital projects. Capital funding maintained for 2014/15.	3	F	E
11	Student Support Funds	Foreseeable trends indicate funding could be reduced and/or demand will be greater than availability of supply	H	Monitoring reports produced every two weeks. Demand for Student Support Funds is difficult to predict as is estimate withdrawals. Risk rests with College - policy reviewed annually to reflect available finance. Funding for 2012/13 confirmed at existing levels. No increase for 2013/14 despite increased WSUM target. No guarantee of in-year funding. In year funding received but College still overspent.	3	F	I
12	External Financial Environment	Effects of recession, depressed state of the economy, unknown Political environment and uncertainty of public sector financial allocations	H	Economic indicators/statistics/reports. Current Climate is unpredictable	3	F	E
13	Office of National Statistics Reclassification of Colleges	Ensure accounting and reporting practices comply with requirements	H	Full impact unknown as yet but accounting year end date has changed to 31 March.	3	F	I
<b>Human Resources Strategy</b>							
14	Effective staff training and development programme	Number of days per employee invested in training and development, external accreditation, appraisal system	L	Staff development framework in place. Staff achieve on average 5 days per annum staff development (formal & informal). Staff development records identify individual progress. IIP and HMIE recognition of staff development process. PMR in place for SMT and CMT, trial roll out in progress.	2	S	I
15	Recruit and retain good quality staff	Investment in qualifications of staff	M Note: also applies to other areas, e.g. HR, H&S, IT	Records of staff qualifications demonstrate competency/knowledge. Staff Development Reviews highlight commitment to training and development. Qualified professional staff committed to CPD and submission of annual returns. Departmental staff turnover is very low. Staff Development records show continued professional development of all areas. Potential further reductions in staffing due to funding cuts could affect service delivery	2	S	E

## Institutional Sustainability 2013-14

16	Appropriate levels of staff turnover	Leavers in last year as % total staff <i>(Note: grading takes account of geography and low turnover can stagnate skills base)</i>	M	Low turnover - 9.4% for voluntary leavers (8% during 2010/11 session). This allows the College to maintain a stable workforce however can make it difficult to recruit new skills and knowledge.	2	S	E
17	Managing levels of sickness absence	Working days per employee lost through sickness absence	L	Absence level for 2011/12 was 3.8% which is a decrease on the previous year and compares favourably to public sector organisations. Absence monitored monthly by HR with annual report to Staffing Committee. Quarterly reports to Staffing Committee. Occupational health contract to ensure staff are able to return to work as soon as possible, enabled through phased return.	1	S	E
18	Appropriately qualified teaching staff	Percentage of permanent college payroll teaching staff with a teaching qualification, HMLe reports	M	98% of permanent teaching staff currently possess a teaching qualification, the remainder are undertaking qualifications (2 people). Potential in future years for % with qualification to decrease due to retirement of staff who possess TQFE being replaced with new staff who do not. 50% of temporary teaching staff possess a teaching qualification with the remainder either undertaking a qualification or not required due to the short term contract/minimal hours delivery.	1	S	I
19	Staff input to and awareness of college strategic plan	Staff consultations, events, staff satisfaction survey	L	Planning and development week to enable all staff to participate in planning process. Communication survey, Principal's briefings and HMLe reports confirmed that staff are involved in the planning process. All staff involved in Vision 2020.	1	S	I
20	Effective staff communications	Staff meetings, newsletters, staff satisfaction survey	M	College News, Intranet, Principal's Update, Staff Suggestion Scheme, direct access to SMT members.	2	S	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. Given the changes to Governance arrangements in the sector there is a potential risk that in future we might not attract the desired skill mix or equality/diversity mix. New Regional Board came into effect in March 2014. New Regional Chairperson appointed through the Scottish Public Appointments process.	2	A	E
<b>Buildings and infrastructure strategy</b>							
22	Provide high quality facilities and services for staff and students	Staff and student satisfaction surveys, estate condition data, estates strategy, ICT strategy	L	Staff and Student Surveys. Comment Card system and Suggestion Scheme. Post Occupancy Evaluation studies Phase I and II. Estates Strategy reviewed on annual basis. Condition Surveys and inspection reports. Also monitored through revised Self-evaluation process.	1	Q	I
23	Continuous investment in estate to address backlog maintenance issues and/or maintain high quality facilities	Capital and maintenance spend on estate/insurance replacement value, estate condition data	M	Capital Expenditure reports. Planned and reactive maintenance programme. Property valuation reports. Reduction in capital funding in 2011/12, but maintained at same level for 2012/13. Capital funding increased in 2013/14 and is maintained for 2014/15	2	F	I

## Institutional Sustainability 2013-14

24	Efficient space utilisation	College data (seat utilisation)	M Note: Timetabling system	Room occupancy surveys undertaken on a sample basis. Timetabling system. Hospitality development will be accommodated but any future expansion will be difficult.	2	F	I
25	Buildings accessible to students with profound and complex needs	Disability Discrimination Act (DDA) compliance measures and evidence of reasonable adjustments	L	Dumfries campus design. Periodic inspections to ensure compliance with relevant legislation	2	S	I
26	Good practice in environmental sustainability	Climate action plan, energy consumption, emissions reporting	M	Climate Change Action Plans for Dumfries, Stranraer, Waste and Transport. Energy monitoring data. Sustainable procurement practices. Green Travel Plan/Initiatives	2	F	I
<b>Other potential goals identified</b>							
27	Transport		M Note: contracts could change suddenly affecting transport availability and student	Utilising public transport for student travel. Replacement of fleet vehicles with low emission models. Promotion of sustainable travel options for staff/students. The cost of bus contracts in future could potentially be subject to large variations and may rise significantly at short notice (tender prices and fuel cost variations).	2	F	I
<b>Quality and collaborative strategy</b>							
28	Appropriate range of provision that is relevant to the needs of the community and the wider economy	Student satisfaction survey, user survey, performance against activity target, use of new learning technology, 'flexibility' of curriculum, self-evaluation	M	Feedback from a wide variety of sources indicates provision meets the needs of community and wider economy, apart from peripheral issues which are marginalised by cost effectiveness. Funding Council targets are consistently met or exceeded, internal targets generally met and regularly monitored through internal processes. Strategic intervention for flexible delivery with 3 year plan supported by Board includes financial support. Comprehensive self-evaluation framework. College operates wherever possible in the local community given constraints of a large rural area.	3	Q	I
29	Appropriate levels of student achievement and attainment	Student statistics	H	Students generally achieve well, including wider achievement. However some areas of the college are not producing consistently high levels, these are being monitored through internal processes including a sub-committee of the Board. Risk that this may affect funding in the future	3	Q	I

## Institutional Sustainability 2013-14

30	Appropriate levels of student retention	Student statistics	H	Retention is generally in line with sector averages and remains fairly static year on year for the college as a whole. Some areas of the college have poor retention and these are being monitored through internal processes including a sub-committee of the Board. 2011/12 saw a 4% improvement in FE (full-time) retention to 72%, and 2012/13 saw a further improvement in retention to 73%.	2	Q	I
31	Commitment to equality and diversity of provision	Student statistics	L	Across the college as a whole statistics indicate that commitment to equality and diversity is achieving representative engagement. This is reflected in regular monitoring and reporting. At course team levels there is a need to improve representation in some curriculum areas, this is being encouraged through internal processes and monitored by a sub-committee of the Board Student representative on Equality Committee. Scotland's Colleges Award for Diversity week in recognition of joint working with students on equality strands	1	Q	I
32	Commitment to widening participation	Student statistics	M	As one of the colleges strategic aims this is an area where the college has performed well given the constraints of a large rural area and a diverse range of needs from a distributed population. Statistics show representation from almost all areas of the region and from a very good range of minority groups. However reduction in funding 2012/15 and focus on 16-24 year olds likely to impact on ability to maintain this on a part-time study basis.	2	Q	I
33	Appropriate quality of provision	HMIE review reports, student satisfaction survey	M	Education Scotland Review resulted in full confidence statements but highlighted some concern in the quality of teaching and learning.	2	Q	I
34	Productive engagement with other colleges, universities, schools and other stakeholders, including wider community	Articulation agreements, involvement in sector working groups, benchmarking groups, number of voluntary groups using college premises, shared services agreements, self evaluation	H	College operates benchmarking arrangements with other colleges and is actively involved in sector initiatives. We share premises with two universities and the Open University. There are articulation agreements with local and other universities including the development of articulation pathways and college staff teach on university courses. There is engagement with schools in the region and pupils attend college on various courses. CTS engage with the business community in regional premises and at the main college sites. The college sites are open for use by the community through appropriate booking arrangements ( engagement with partners is likely to be adversely affected by their and our own funding cuts eg LAYP, UWS contract. Major potential development resulting from the introduction of the Dumfries Learning Town with implications for tertiary provision.	3	Q	I
35	Commitment to corporate and social responsibility issues including promotion of equality and diversity and public value	Corporate and social responsibility statement, audit, student satisfaction survey, self evaluation	L	The college operates as a community college serving the needs of the local area. In this respect the issues of social responsibility, promotion of equality and diversity and public value are intrinsic to the planning process and delivery mechanisms. These issues are given high priority by the Board and SMT. However there is no specific statement of intent or recent evidence to support the effectiveness of the college in this respect	2		A

## Institutional Sustainability 2013-14

36	Commitment to environmental sustainability	Participation in <i>Climate Change Commitment</i> , development of climate change action plan and monitoring of progress against plan	M	The college has signed up to and is committed to the Climate Change Commitment. An analysis of the college carbon performance has been conducted by the Carbon Centre resulting in an action plan for improvement which is supported by the Board with funds committed and action on-going. As the building is new there may be limited scope to make major improvements	2	F	I
37	Appropriate quality of support services	Staff, student satisfaction surveys	L	Evidence from internal and external evaluations all indicate that there is a high quality of support service accompanying those directly related to curriculum delivery	1	Q	I
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
<b>Other potential goals identified</b>							
39	Curriculum	Sustainability of multiple campuses/provision	M	Marginality of operation some courses - as funding reduces the challenge increases	2	Q	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 2. External audit advice	1. Feedback to SMT and Board	Internal/ External	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

## 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		
14	SA 5,6 & 7	Health and safety incident due to quality of construction of external balustrades	3	4	12	1. All panels to be tested and secured 2. Detailed monitoring undertaken by Assistant Principal (Q&E)	1. Feedback to SMT and Board	Internal / External	2	4	8	Commission a full building survey by external consultants	IPB

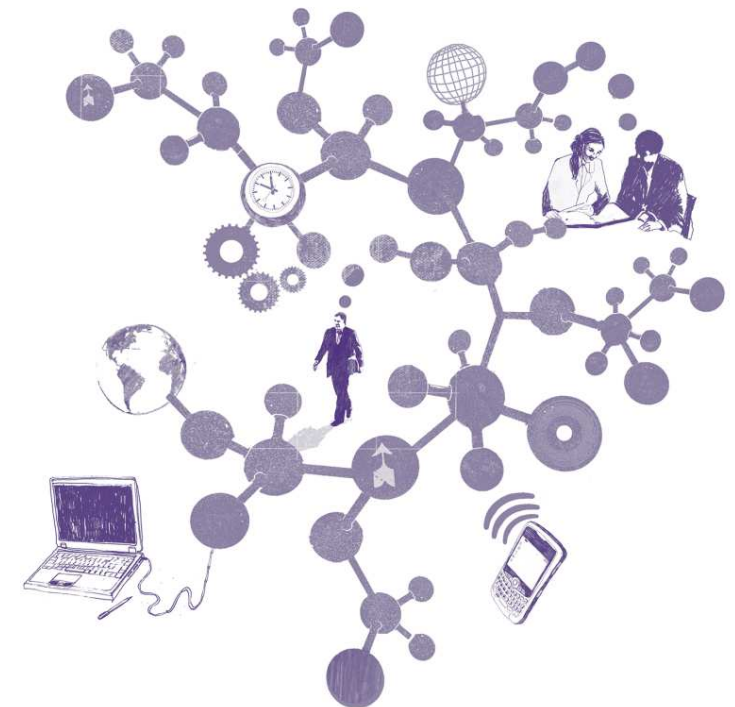
# The Audit Plan for Dumfries and Galloway College

Period ending 31 March 2014

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect VisitScotland or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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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Dumfries and Galloway College  
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17 March 2014

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### **Audit Plan for Dumfries and Galloway College for the period ending 31 March 2014**

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

This Audit Plan highlights the key elements of our proposed audit strategy for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management. The Audit Findings report will be issued prior to approval of the financial statements and will present our significant findings and other matters arising from the audit. We will communicate any significant adverse or unexpected findings affecting the audit on a timely basis, either informally or through an interim memorandum.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

We look forward to working with you during the course of the audit.

Yours faithfully

Gary Devlin

Engagement lead

#### **Chartered Accountants**

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# Introduction

## Introduction

Our audit plan is prepared for the benefit of discussion between Grant Thornton UK LLP and Dumfries and Galloway College.

We are required to conduct our audit in accordance with the Code of Audit Practice (the Code) issued by Audit Scotland. The Code requires our audit to cover aspects of Dumfries and Galloway College's arrangements for the preparation of financial statements, governance and performance management. Our audit approach is based on an annual integrated assessment of risk across the Code responsibilities.

The Code requires that we undertake our audit in accordance with:

- relevant legislation (the Public Finance and Accountability (Scotland) Act 2000)
- Statements of Auditing Standards and applicable Practice Notes issued by the Auditing Practices Board
- the Statement of Recommended Practice: accounting for further and higher education (the SORP)
- the Accounts Direction issued by the Scottish Funding Council
- other guidance issued by Audit Scotland.

This Plan summarises our approach to the audit of the College for the compliance with the Code, and other legislative and audit practice requirements. This Plan assumes the financial year end will be confirmed as 31 March 2014.

## Our Audit Strategy

Our key audit objectives are as follows:

- to audit the financial statements of the College within agreed timescales
- to ensure the College complies with applicable enactments and guidance issued by the Scottish Funding Council
- to consider aspects of performance and governance arrangements
- to consider legality and losses
- to deal with formal complaints
- to produce a concise and constructive report of key issues to the College and the Auditor General for Scotland.

## Dumfries and Galloway College responsibilities

The Accountable Officer is responsible for the preparation of the financial statements which show a true and fair view of the College's affairs, and for making available to us all the information and explanations we consider necessary for the purposes of our audit.

Management are responsible for putting proper arrangements in place to ensure that:

- public business is conducted in accordance with the law and proper standards
- public money is safeguarded and properly accounted for
- economy, efficiency, effectiveness and Best Value is achieved in the use of resources
- the Audit Committee provides assurance to the Accountable Officer that these requirements have been met.

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## **Fraud and Irregularity**

It is the College's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

We work with the College's internal audit team to review specific areas of fraud risk. We also examine the College's policies, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

## **Our work with Internal Audit**

Each year, we work with the College's internal auditors to ensure that our audit approach takes account of the risks identified and the work they have conducted, subject to our review of the internal audit function. We will review the key issues arising from the work they have carried out and will incorporate the results of their work into our risk analysis.

# Understanding the Business

In planning our audit we need to understand the governance challenges and opportunities Dumfries and Galloway College is facing. We set out a summary of our understanding below.

## Business challenges/opportunities

### 1. Arms Length Foundational Trust 2014

- Dumfries and Galloway College are in the final stages of setting up of an arms length foundational trust.
- The College will also participate in the Scottish Funding Council 'Umbrella' Trust
- The key challenges for the College are to ensure they cannot exert dominant influence over the Trust, and its purpose is not solely for the benefit of the College.

### 2. Continuing financial pressures

- Dumfries and Galloway's College's costs are mainly funded through grant-in-aid from the Scottish Funding Council. There continues to be pressure on this funding.
- A key challenge for the College continues to be its objective to reduce reliance on Scottish Funding Council grants.

### 3. ONS Reclassification

- In October 2010 the Office of National Statistics (ONS) announced a recommendation to reclassify Colleges of Further Education to the central government sector. The Government accepted this recommendation and it is effective from financial year 2014/15.
- This decision has significant implications for the College as it will require to changes to budgeting, reporting, accounting and governance practices to align them with the overarching framework applicable to central government bodies.

## Our response

- We will undertake a final detailed review of the articles for the formation of the Trust to ensure there is no dominant influence by Dumfries and Galloway College, and therefore no need to consolidate the results into the College financial statements.
- We will review the proposed purpose of the Trust to further ensure it is not only being used as a cash management tool for the sole benefit of the College. Again this would lead to the need to consolidate the results into the College financial statements.

- We will monitor progress over 2013/14 to generate efficiencies in order to meet the budget requirements.
- We will review Dumfries and Galloway College's medium to long term plans for continuing to manage grant-in-aid from Scottish Funding Council, and its ability to increase other sources of income, and any related impact on performance targets and outcomes.

- We will review the arrangements put in place by Dumfries and Galloway College to support the transition, particularly in relation to the four key areas which will we have identified:
- the budgeting and reporting requirement of a central government body
- the working capital impact of a move to central government status
- the accounts impact based on the move to International Financial Reporting Standards / revised Statement of Recommended Practice for Higher and Further Education
- the governance arrangements required of a central government body.

# Developments relevant to the College and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

## Developments and other requirements

### 1. Legislation/ Regulator Guidance

- The Office of National Statistics (ONS) reclassification of Further Education Colleges to central government bodies comes into force from 1 April 2014.
- We anticipate the Post 16 Education (Scotland) Bill which comes into force in May 2014 will contain a legal obligation for regional colleges to have a 31 March year end. This is in line with ONS requirements and will apply from 1 April 2014.
- Outcome agreements continue to be used by the Scottish Funding Council to provide the basis for funding decisions are performance targets.
- Scottish Funding Council revised Accounts Direction for Colleges will be issued in due course.

### 2. Financial reporting guidance

- The budgeting requirements aligned to the ONS decision have led to the operation of an arms length trust. This has led to large donations being made in 2013/14 into the newly formed trust.
- From 2014/15 there will be a requirement for the financial statements to comply with the Government Financial Reporting Manual (FRoM). This has resulted in a significant number of accounting implications which have an impact on the 2013/14 and 2014/15 financial statements.
- Full International Financial Reporting Standards (IFRS) conversion is applicable from 2015/ 16 with the issue of the new HE/ FE Statement of Recommended Practice (SORP). This will also require comparative figures to be prepared for the opening balance at 1 April 2014 and 1 April 2014 to March 2015

### 3. Corporate governance

- The reclassification of the Colleges also impacts on its governance framework.
- All central government bodies are required to meet the governance requirements set out in the Scottish Public Finance Manual (SPFM).
- At this stage there is no clear guidance from Scottish Ministers or the Scottish Funding Council over the extent the SPFM will apply to Colleges.

## Our response

- We will monitor the decisions made by the Scottish Funding Council with regard to the on-going changes required for the reclassification to central government and discuss these with the College as appropriate.
- We have planned our audit procedures for the 2013/14 financial year based on a year end of 31 March 2014. We acknowledge this will have significant implications for the recognition of income and expenditure.
- We will review the Outcome Agreements and the College's performance against the key targets.

- We will review the accounting entries surrounding the donation to the arms length trust to ensure compliance with issued guidance and accounting standards.
- We will monitor the accounting implications associated with the movement to the FRoM and discuss any significant changes to the financial statements with the College.
- We will review the financial statements at the year end to ensure compliance with the SORP and SFC guidance
- We will work with the College as it takes action to prepare for full IFRS implementation.

- We will monitor the guidance on the governance arrangements required as a result of the ONS decision and discuss any actions arising from this guidance with the College

# Our audit approach

We will use Voyager, our audit software package to document, evaluate and test, where appropriate, internal controls over the financial reporting process in order to reduce our detailed testing. We also tailor the software to incorporate the governance, regularity and performance risks identified at the planning stages.

Our approach will be to report all findings to management so that Dumfries and Galloway College can choose to secure improvement opportunities. We report only those findings that represent a control weakness to the Audit Committee and make formal recommendations.

In all cases, we invest time with management in understanding the basis of the weakness identified and what the options are, for example mitigating controls and system modifications, for improving the system.

## Planning

- Updating our understanding of Dumfries and Galloway College through discussions with management and review of reports presented to the Board and Audit Committee
- Reviewing the design, implementation and effectiveness of internal financial controls including IT, where they impact the financial statements
- Assessing audit risk and developing and implementing an appropriate audit strategy
- Reviewing governance and performance management arrangements against good practice standards

## Substantive Procedures

- Reviewing and advising on material disclosure issues in the financial statements
- Performing analytical review
- Performing sample testing of income and expenditure balances, taking in to account potential risks to regularity.
- Verifying all material income, expenditure and balances, taking into consideration whether audit evidence is sufficient and appropriate

## Completion

- Performing overall evaluation of our work on the financial statements to determine whether they give a true and fair view
- Determining an audit opinion
- Reporting to those charged with governance through our Audit Findings Report and Report to Members and attendance at the Audit Committee



# An audit focused on risks

We undertake a risk based audit, focussing audit effort on those areas where we have identified a risk of material misstatement in the financial statements. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

**Significant** – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. The International Standards on Auditing identify two overall significant risks inherent in any financial statements. These are separately disclosed in the significant risks table on page 11.

**Reasonably Possible** – Reasonably Possible risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake extended substantive testing. Cycles where we have identified a reasonably possible risk of material misstatement are outlined in full on pages 12 and 13 along with full details of the proposed testing

**None** – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the financial statements is not material we do not carry out detailed substantive testing.

Section of the financial statements	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk identified?	Description of Risk	Will substantive testing be carried out?
Staff Costs	Yes	Employee remuneration	Medium	Reasonably Possible	Employee Remuneration accruals are understated	✓
Tuition Fees	Yes	Tuition and Fee Revenues	Medium	Reasonably Possible	Recorded tuition and fee revenues are not valid	✓
Other Operating Expenses	Yes	Operating expenses	Medium	Reasonably Possible	Creditors understated or not recorded in the correct period	✓
Grant income	Yes	Grant Revenues	Low	None	We have not identified a risk of material misstatement	✓
Other Income	Yes	Other Revenues	Low	None	We have not identified a risk of material misstatement	✓

## An audit focused on risks (continued)

Section of the financial statements	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk identified?	Description of Risk	Will substantive testing be carried out?
Trade and Other Payables	Yes	Operating Expenses	Medium	Reasonably Possible	Creditors understated or not recorded in the correct period	✓
Provisions	Yes	Operating Expenses	Medium	Reasonably Possible	Provision is not adequate	✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Low	None	We have not identified a risk of material misstatement	✓
Trade and Other Receivables	Yes	Other revenues	Low	None	We have not identified a risk of material misstatement	✓
Cash & cash Equivalents	Yes	Cash	Low	None	We have not identified a risk of material misstatement	✓
Retirement Benefit Obligations	Yes	Employee Remuneration	Low	None	We have not identified a risk of material misstatement	✓
Reserves	Yes	Equity	Low	None	We have not identified a risk of material misstatement	✓

# Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description of risk	Work planned
<b>The revenue cycle includes fraudulent transactions</b>	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue	<ul style="list-style-type: none"><li>• Review and testing of revenue recognition policies</li><li>• Perform analytical review and attribute testing on material revenue streams.</li></ul>
<b>Management over-ride of controls</b>	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities	<ul style="list-style-type: none"><li>• Review of accounting estimates, judgements and decisions made by management</li><li>• Testing of journal entries</li><li>• Review of unusual significant transactions.</li></ul>

# Reasonably possible risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA 315).

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

Reasonably possible risks	Description of risk	Work planned
<b>Employee remuneration</b>	<b>Completeness of employee remuneration accruals</b> Employee Remuneration accruals are understated	<ul style="list-style-type: none"> <li>Walkthrough test to confirm the processes and controls in operation</li> <li>Sample testing of staff members to contract and recalculation payments and contributions</li> <li>Analytically review payroll expenses in comparison to expectations and investigate any significant variances</li> <li>Review the relevant disclosures relating to staff costs within the financial statements</li> <li>Review the treatment and associated disclosures in relation to the pension schemes.</li> </ul>
<b>Tuition and Fee Revenues</b>	<b>Existence and occurrence of tuition fee revenues</b> Recorded tuition and fee revenues are not valid.	<ul style="list-style-type: none"> <li>Walkthrough test to confirm the processes and controls in operation</li> <li>Review the period end balances and agree a sample to post period end receipts.</li> <li>Sample testing of revenue transactions occurring during the period, testing the process from student validity to final receipt of tuition fees.</li> </ul>
<b>Operating Expenses</b>	<b>Completeness of creditors</b> Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>Walkthrough test to confirm the processes and controls in operation</li> <li>Substantive testing of accruals and payables</li> <li>Review of judgements associated with accruals</li> <li>Cut off after date testing.</li> </ul>
<b>Provisions</b>	<b>Completeness of provisions</b> Provision is not adequate	<ul style="list-style-type: none"> <li>Review and test the accounting and calculations for VAT against HMRC's guidance on the Lennartz Mechanism of accounting for VAT</li> <li>Review of the implications of the Lennartz scheme in terms of accounting going forward post 1 April 2014.</li> </ul>

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# Governance

## Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. Dumfries and Galloway College is responsible to ensure proper arrangements are in place for:

- compliance with applicable guidance
- ensuring the legality of activities and transactions
- monitoring the adequacy and effectiveness of these arrangements in practice.

The Code of Practice gives the auditor a responsibility to review and, where appropriate, report findings on Dumfries and Galloway College's corporate governance arrangements. We will review and, where applicable, report findings relating to financial governance, strategic financial planning and financial control. Specifically we will review:

- the systems of internal control, including its reporting arrangements
- the prevention and detection of fraud and irregularity
- the standards of conduct, and arrangements in relation to the prevention and detection of corruption
- risk management procedures
- the financial position of Dumfries and Galloway College.

## External Reporting

The Statement of Corporate Governance and Internal Controls is the key document that records the governance ethos of Dumfries and Galloway College, and assurances around the achievement of the vision and strategic objectives of Dumfries and Galloway College. The Statement of Corporate Governance and Internal Controls summarises the internal control framework, arrangements for risk management, financial governance and accountability.

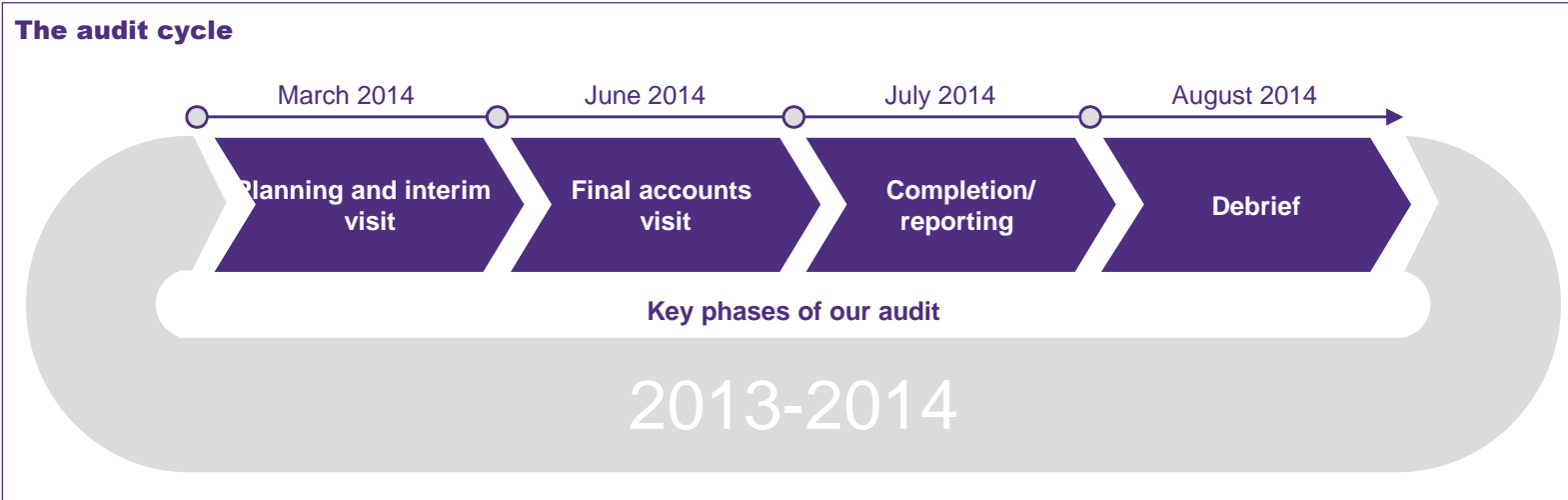
During 2012- 13, we concluded that the disclosures within Dumfries and Galloway College's Statement of Corporate Governance and Internal Controls were clear and comprehensive. Under the Code of Audit Practice, we are required to review and report on the Statement of Corporate Governance and Internal Controls annually. We will assess Dumfries and Galloway College's external reporting of governance, through the 2013-14 Statement of Corporate Governance and Internal Controls and management commentary in the accounts against best practice.

## Regularity Opinion

Dumfries and Galloway College are responsible for ensuring that public money is used only for its approved purpose. Dumfries and Galloway College should therefore have systems of internal control in place to ensure the regularity of transactions.

The Code of Audit Practice requires that the auditor provides an opinion on the regularity of the income and expenditure of Dumfries and Galloway College. We will therefore consider whether there are adequate controls in place over expenditure and substantively test transactions to ensure they are in line with the approved purpose of the College. In particular we note that the College intends to make a substantial donation to a newly created Foundation Trust and we have asked the Accountable Officer to document how she will gain assurance that this proposed action is 'regular'.

# Logistics and our team



Date	Activity
Mar 2014	Planning
Mar 2014	Audit Plan to management
Mar 2014	Interim visit
Jun 2014	Year end site work
Aug 2014	Audit Findings presented to Audit Committee

## Our team

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# Fees and independence

## Fees

	£
External Audit – College	14,100
<b>Total audit fees</b>	<b>14,100</b>

## 2013/14 Audit Fee

The audit fee is calculated in accordance with guidance issued by Audit Scotland for determining the fee level for further education colleges. Audit Scotland requires that the agreed fee is within the limits of the indicative fee range.

## Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and Dumfries and Galloway College and its activities have not changed significantly
- Dumfries and Galloway College will make available management and accounting staff to help us locate information and to provide explanations

## Fees for other services

Service	Fees £
Reclassification of incorporated colleges – Report and Action Plan	6,000

## 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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team. Whilst we are independent of Dumfries and Galloway College, we draw attention to our external audit appointment to the Scottish Funding Council. At all times during the audit, we will maintain a robustly independent position in respect of key judgement areas.

# Communication of audit matters with those charged with governance

<b>Our communication plan</b>	<b>Audit Plan</b>	<b>Audit Findings</b>
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		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

International Standards 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.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to Dumfries and Galloway College.

## **Respective responsibilities**

This plan has been prepared in the context of the Code of Audit Practice ('the Code') issued by Audit Scotland, which outlines the responsibilities of appointed auditors.

We have been appointed as Dumfries and Galloway College's independent external auditors by Audit Scotland, the body responsible for appointing external auditors to local public bodies in Scotland. As external auditors, we have a broad remit covering finance and governance matters.

Our work programme is set in accordance with the Code and Audit Scotland planning guidance, and includes nationally prescribed and locally determined work. Our work considers Dumfries and Galloway College's key risks when reaching our conclusions under the Code.

It is the responsibility of Dumfries and Galloway 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 Dumfries and Galloway College is fulfilling these responsibilities.





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