

Audit Committee

Tuesday 19 August 2014

2.00 pm
Room 2009

A G E N D A

- 1 Apologies for Absence
- 2 Declaration of Interest
- 3 Minute of Meeting of 14 May 2014 (attached)
- 4 Matters Arising
- 5 Internal Audit Reports
 - 5.1 Internal Auditor Annual Report - year ended 31 July 2014 (attached)
- 6 Strategic Risk Register (attached)
- 7 Informing the Audit - Risk Assessment (attached)
- 8 External Auditor Annual Report (attached)
- 9 Final Accounts - March 2014 (attached)
- 10 Draft Annual Audit Committee Report (for the period Aug 13 to March 14) (attached)
- 11 Any Other Business
 - 11.1 Internal Audit Plan 2014/15-2106/17
- 12 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 19 August 2014 at 2.00 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
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 14 May 2014 was approved.

4 Matters Arising

None

5 Internal Audit Reports

5.1 Internal Auditor Annual Report – year ended 31 July 2014

Lindsay-Anne Straughton, on behalf of Baker Tilly spoke the report, which gave opinion on the adequacy and effectiveness of risk management, control and governance arrangements within the College. The four core elements were green which identified that there were no recommendations for remedial action.

The Committee was pleased to receive such a positive report and conveyed its congratulations to College staff for their excellent work.

6 Strategic Risk Register

The Assistant Principal, Learner Services, spoke to the register which had been issued, advising of only one change from the previous meeting. It was suggested that the residual risk assessment for risk no. 11, which referred to changes following the ONS reclassification of colleges be reduced from 6 to 4, given that the majority of changes were now known and appropriate system/controls were in place. The Assistant Principal, Learner Services, proposed that this remain on the register until a full financial account year had taken place under ONS. This was agreed by the Committee.

7 Informing the Audit Risk Assessment

Angela Pieri on behalf of Grant Thornton spoke to the report which had been issued.

The report listed the questions asked and management responses made as part of a process which informed the external auditors on the College's risk management appetite. The Assistant Principal and Finance Manager confirmed that they had found this a very worthwhile exercise.

8 External Auditor Annual Report

Angela Pieri, on behalf of Grant Thornton, spoke to the report which had been issued, detailing an excellent set of final accounts and working papers, and that the College had adapted and prepared well in order to manage the requirement to change the accounting year to 31 March for the 2013/14. The Audit Findings reported no material errors or adjustments were required as a result of the audit

In summary, Grant Thornton intended to give an unqualified opinion on the financial statements and identified no material adjustments during the audit.

The Committee welcomed the report and offered congratulations to the Finance Manager and her team.

9 Financial Statements for the period ended 31 March 2014

Members noted the draft Final Accounts and summary report which had been issued.

Following the assurances given earlier in the meeting, the Audit Committee recommended the Accounts to the Board for approval on 16 September 2014.

10 Draft Annual Audit Committee Report (for the period Aug 13 to March 14)

The Finance Manager spoke to the draft Report which had been issued, which would advise the Board of Management of the activities and decisions of the Audit Committee during 2013-14 and to provide opinions on matters specified by the Code of Audit Practice.

Members noted the table of audit recommendations accepted and auctioned and that the main focus during the year had been the ONS reclassification and the change to the accounting year to 31 March.

The Committee approved the report to go to the Board.

11 Any Other Business

11.1 Internal Audit Plan 2014/15 – 2016/17

Lindsay-Anne Straughton, on behalf of Baker Tilly tabled the draft Internal Audit plan for the three year period, which was based on the issues affecting the College, and the key topics to be audited by March 2015.

The Committee noted and approved the 3 year plan

12 Date and Time of Next Meeting

The next meeting of the Committee would take place on 2 December 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 11 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.

Dumfries and Galloway College

Internal Audit Annual Report – Year ended 31 July 2014

Presented at the Audit Committee meeting of: 19 August 2014

Patrick Green

Baker Tilly Risk Advisory Services LLP

1. Introduction

1.1 The Role of Internal Audit

The prime responsibility of Internal Audit is to provide the Board, the designated Accounting Officer and the management of Dumfries and Galloway College with assurance on the adequacy and effectiveness of risk management, control and governance arrangements. Internal Audit can also provide independent and objective consultancy and advice to improve those arrangements. Internal audit is therefore a key part of Dumfries and Galloway College's assurance cycle and if used properly can help to inform and update the organisation's risk profile. Internal Audit is just one of the sources of assurance available to the Board.

1.2 Statement of Corporate Governance and Internal Control

The College is required to include a Statement of Corporate Governance and Internal Control within their 2013/2014 financial statements. As your internal audit provider, the assignment opinions and advisory reviews that we undertake and report on during the year are part of the framework of assurances that assist the Board (through the Audit Committee) prepare an informed statement and provide the opinions required.

2. Internal Audit Opinion

2.1 Context

The Scottish Further and Higher Education Funding Council requires all Scottish Colleges (through their Financial Memorandum) to have in place an effective internal audit service.

















As the provider of the internal audit service to Dumfries and Galloway College we are required to provide an opinion on the adequacy and effectiveness of the College's governance, risk management, and control arrangements, including an appraisal of management's arrangements for achieving value for money.

In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the designated Accounting Officer, Audit Committee and the Board is a reasonable assurance that there are no major weaknesses in the risk management, governance and control processes.

2.2 Internal Audit Opinion 2013/2014

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion on the adequacy and effectiveness of Dumfries and Galloway College's arrangements. In my opinion Dumfries and Galloway College has adequate and effective governance, risk management, control and value for money processes to manage the achievement of its objectives.

For the 12 months ended 31 July 2014, based on the work we have undertaken, our opinions regarding the adequacy and effectiveness of Dumfries and Galloway College's arrangements for governance, risk management and control are as follows:

	Red	Amber	Green	Direction of travel
Governance Adequate and effective governance processes are in place.				
Risk Management Adequate and effective risk management processes are in place.				
Control Adequate and effective control processes are in place.				
Value For Money Overall, adequate and effective control processes are in place. Although our reviews of Open Learning and Work Based Learning did not highlight any issues with regards VFM during the year, we have made recommendations in relation to these activities going forward.				

Note: The direction of travel arrow indicates whether the change in our opinion related to the previous year is upward (improving), downward (adverse) or static.

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. 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.

2.3 Scope of the Internal Audit opinion

In arriving at our opinion, we have taken into account:

- The results of all internal audits undertaken during the year ended 31 July 2014 (see Appendix A for a risk map of our internal audit assurances);
- The results of follow-up action taken in respect of audits from previous years;
- Whether high priority recommendations have been accepted by management and, if not, the consequent risks;
- The effects of any material changes in the College's objectives or activities;
- Matters arising from previous reports or other assurance providers to the Audit Committee and/or the Board;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the College; and
- What proportion of the organisation's internal audit needs have been covered to date.

2.4 The Basis of the Opinion

2.4.1 Governance

To inform our governance opinion for 2013/14, we have taken into consideration the governance and oversight related elements of each of the reviews undertaken as part of the 2013/14 Internal Audit Plan.

This also builds upon our cumulative knowledge of the College's governance processes through coverage in previous years.

2.4.2 Risk Management

Our risk management opinion for 2013/14 is informed by the assessment of the risk mitigation procedures undertaken in the areas covered by the risk-based reviews, which were completed as part of the 2013/14 Internal Audit Plan. These included our review of **Student Support Funds** and **Student Activity Data**, both of which resulted in "green" opinions (substantial assurance) with no recommendations being raised.

In addition, our opinion is also informed by the discussions we have had with management and through cumulative knowledge of the College's risk management and assurance systems and processes. During the year we also provided support to management in the further development of the Colleges Risk Management Policy and Risk Register.

2.4.3 Control

Our review of **Income and Debtors** resulted in a "green" opinion (substantial assurance) with two medium and one low recommendation raised in relation to bi-annual review of the debt collection process; regular spot checks to ensure debtors have been issued with the latest reminders; and processing approved write-offs in a timely manner.

The **Procurement and Payments** review resulted in two medium recommendations in relation to obtaining the minimum number of required quotes for purchases as per the Procurement Procedures and retention of all supplier amendment notifications. This review was given a "green" opinion (substantial assurance).

2.4.4 Value for Money

The Scottish Further and Higher Education Funding Council requires internal audit to provide an appraisal each year on the Colleges arrangements for Value For Money.

We carried out two Value For Money reviews during the year in relation to **Open Learning** and **Work Based Learning**; both of which focused on whether the College is recovering the costs incurred in delivering these provisions. These reviews concluded that although the College had received more income than it had incurred expenditure in delivering Open Learning and Work Based Learning, the College did not have sufficient management information regarding the costs to enable it to make an informed decision as to what fee to charge to ensure value for money going forward. A total of eight medium recommendations were made across these two areas.

It should however be noted that, providing the College maintains the proposed plans for dealing with the costs in these areas, then appropriate information should be generated from the 2014/15 academic year onwards in order to successfully cost these courses to ensure they are financially viable and profitable for the College.

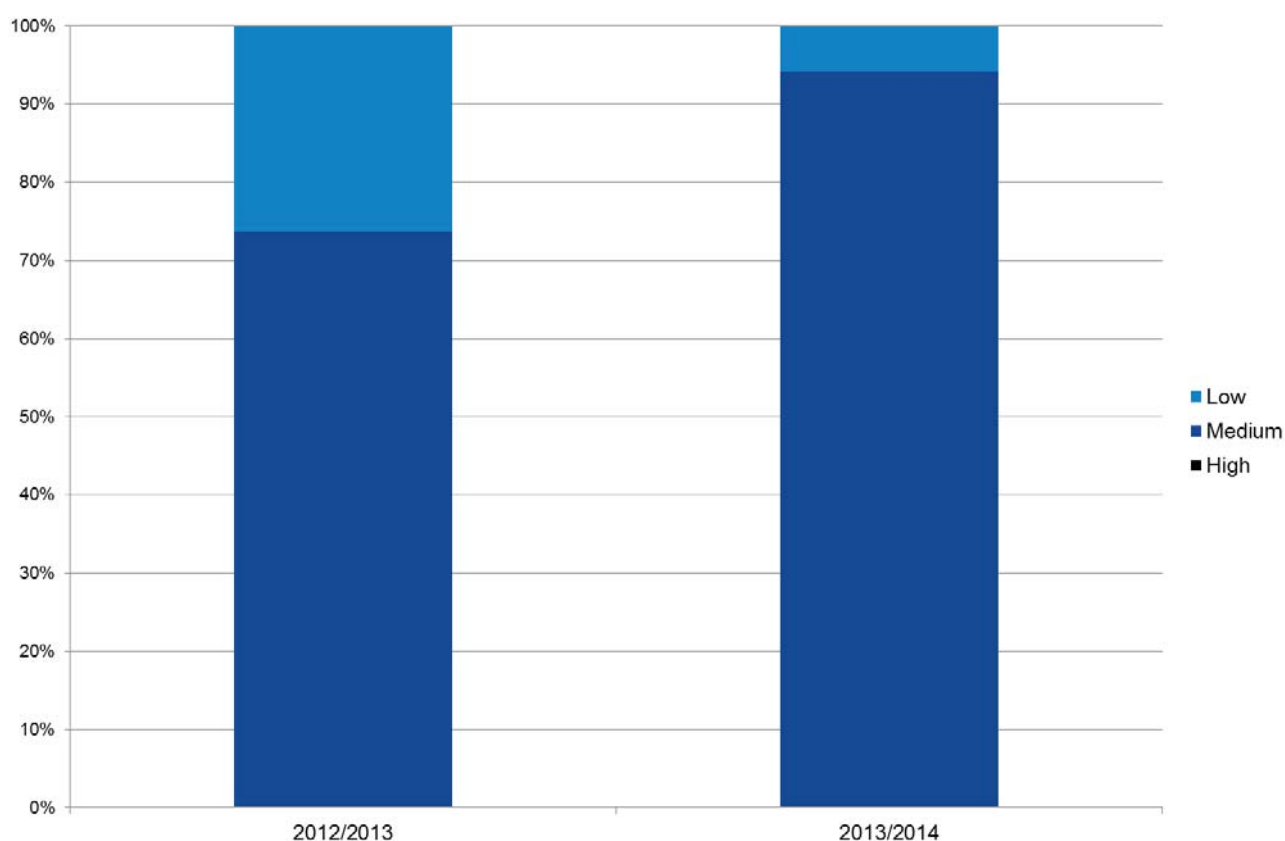
2.4.5 Acceptance of Recommendations

All but one of the recommendations made during the year were accepted by management. One recommendation in relation to obtaining the minimum number of required quotes for purchases, raised as part of our Procurement and Payments audit was not accepted as management felt that sufficient compensating controls were in place.

2.4.6 Comparison of Internal Audit Opinions (Assurance assignments) in 2013/2014 compared with 2012/2013



2.4.7 Comparison of Internal Audit recommendations made 2013/2014 compared with 2012/2013



2.4.8 Progress made with previous internal audit recommendations

Our follow up in February 2014 of the recommendations that were made in 2012/13, including those that were outstanding from previous years, showed that the College has made good progress in implementing the agreed recommendations. This is summarised below:

Recommendation Priority	Number made in 2012/2013	O/s from prior years	Of which:	
			Addressed	Not implemented or still in progress
High	-	-	-	-
Medium	14	3	10	4
Low	5*	-	-	-
Totals	19	3	10	4

*For recommendations categorised as 'low' we have accepted management's assurance regarding their implementation.

2.4.9 Reliance Placed Upon Work of Other Assurance Providers

In forming our opinion we have not placed any direct reliance on other assurance providers.

2.5 Statement of Corporate Governance and Internal Control

Our overall opinion may be used by the Board in the preparation of the Statement of Corporate Governance and Internal Control.

2.6 Conflicts of Interest

We (Baker Tilly) have not undertaken any work or activity during 2013/2014 that would lead us to declare any conflict of interests.

During the 2013/2014 academic year, on 2 September 2013, Baker Tilly completed a transaction under which it acquired RSM Tenon Limited and RSM Tenon Audit Ltd. The newly enlarged Baker Tilly group has undergone a reorganisation to integrate the activities of the two former groups. As a result, our existing contract with the College was transferred to Baker Tilly Risk Advisory Services LLP as of 1 April 2014 and a revised Letter of Engagement was issued to the College. The service provided to you up until 2 September 2013 was provided by RSM Tenon Limited, which has now formed part of Baker Tilly Risk Advisory Services LLP. This annual report covers the internal audit plan for 2013/2014 and is provided by Baker Tilly Risk Advisory Services LLP.

3. Our Performance

3.1 Wider value-adding delivery

As part of our client service commitment, during 2013/14 we issued three client briefings to the College.

We have continued to hold one-to-one meetings throughout the academic year with the Assistant Principal and the Finance Manager to discuss developments at the College and thus ensure that our plan has remained tailored to your assurance needs.

3.2 Conformance with Internal Audit Standards

Baker Tilly affirms that our internal audit services to the institution are designed to conform to the International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors. Our services also conform to the Public Sector Internal Audit Standards which came in to effect from 1 April 2013.

Under the standards, internal audit services are required to have an external quality assessment every five years. During 2011 our Risk Advisory service line commissioned an external independent review of our internal audit services to provide assurance whether our approach meets the requirements set out in the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA).

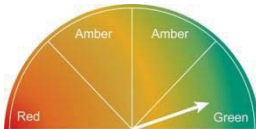


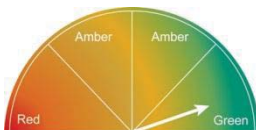
The external review concluded that *“the design and implementation of systems for the delivery of internal audit provides **substantial assurance** that the standards established by the IIA in the IPPF will be delivered in an adequate and effective manner”*.

3.3 Performance Indicators

Our performance during 2013/2014 is summarised below across a range of performance indicators.

- All audits commenced in line with the original agreed timescales, unless otherwise requested by the College.
- All audit scopes were agreed with the Assistant Principal at least two weeks prior to commencement of each review.
- 100% of draft reports were issued within 15 working days of the audit debrief.
- 100% of final reports were issued within three working days of receiving management comments.
- Our 2013/14 internal audit plan was 100% complete and all reports issued in final prior to the year-end of 31st July 2014.

Appendix A: Internal Audit Opinions and Recommendations 2013/2014

Audit	Link to risk or rationale for coverage	Opinion	Actions Agreed (by priority)		
			High	Medium	Low
Audits to address specific risks					
Student Support Funds	The following areas were considered as part of this review: <ul style="list-style-type: none">Compliance with EMA guidance.Compliance with Bursary / Discretionary Fund guidance.		-	-	-
Student Activity Data	The following areas were considered as part of this review: <ul style="list-style-type: none">Enrolment.Programmes eligible for funding.Student eligibility.		-	-	-
Reclassification as a Public Body	We provided support to the Finance team advised on whether the risks and implications of the change in status of the College had been fully considered.	Advisory	-	-	-
Core Assurance					
Income and Debtors	This review considered: <ul style="list-style-type: none">Raising of debtor invoices.Debt management.Aged debt reporting and write off.		-	2	1
Procurement and Payments	This review considered compliance with the Colleges Financial Regulations.		-	2	-
Value for Money – Open Learning	This review considered whether the income received from work based learning covered the costs of the provision.	Advisory	-	3	-
Value for Money – Work Based Learning	This review considered whether the income received from work based learning covered the costs of the provision.	Advisory	-	5	-
Follow Up	To meet internal auditing standards and to provide management with ongoing assurance regarding implementation of recommendations.	Good Progress	-	4	-
		Total	-	16	1

We use the following levels of opinion classification within our internal audit reports:

Red	Amber / Red	Amber / Green	Green
<p>Taking account of the issues identified, the Board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.</p> <p>Action needs to be taken to ensure this risk is managed.</p>	<p>Taking account of the issues identified, whilst the Board can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.</p>	<p>Taking account of the issues identified, the Board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.</p> <p>However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.</p>	<p>Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.</p>

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

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

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

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

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

Baker Tilly Risk Advisory Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.

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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 L&T 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/ JB
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 2014/15 and 2015/16.	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 L&T 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 L&T Committee 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 L&T 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	2	4	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	4	4	16	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	SAW



Informing the audit risk assessment for Dumfries and Galloway College

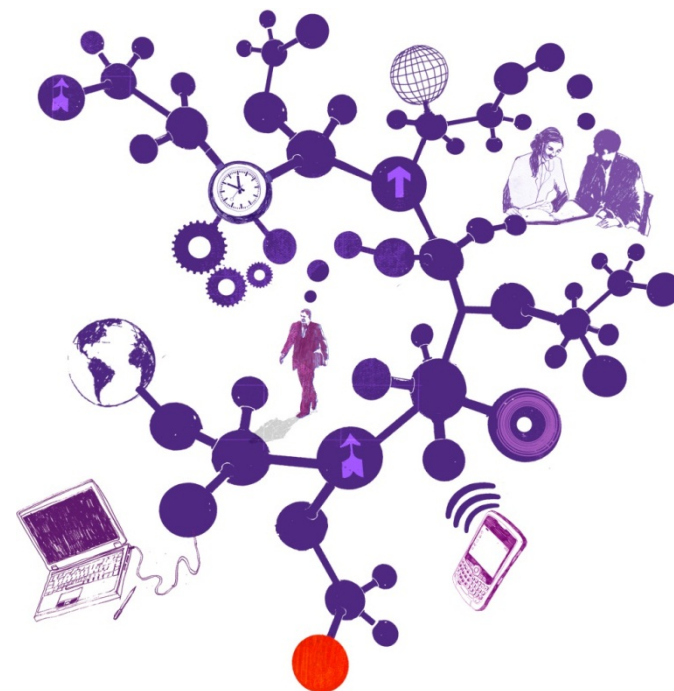
Year ended 31 March 2014

August 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 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.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the College's Audit and Risk Management Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of Management and the Audit and Risk Management Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit and Risk Management Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit and Risk Management Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Risk Management Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Risk Management Committee, and supports the Audit and Risk Management Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit and Risk Management Committee's oversight of the following areas:

- fraud
- laws and regulations
- financial reporting and going concern.

This report includes a series of questions on each of these areas.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Risk Management Committee and management. Management, with the oversight of the Audit and Risk Management Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Risk Management Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit and Risk Management Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Risk Management Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Risk Management Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below.

Fraud risk assessment

Question	Management response / Those charged with governance additional comments
Has the College assessed the risk of material misstatement in the financial statements due to fraud?	Yes
What are the results of this process?	No issues have been identified.
What processes does the College have in place to identify and respond to risks of fraud?	There are controls in place across the College to ensure the likelihood of fraud is low, as set out in the Financial Regulations, and work instructions - including segregation of duties, review and authorisation of transactions at different levels, as well as monitoring and reporting. The College also has an established Fraud Policy
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks? What have you determined to be the classes of accounts, transactions and disclosures in the financial statements that are most at risk of fraud?	None have been identified
Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?	Yes – the College Internal Audit process has confirmed this
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	None have been identified

Fraud risk assessment

Question	Management response / Those charged with governance additional comments
How does the Audit and Risk Management Committee exercise oversight of management's processes for identifying and responding to risks of fraud?	The Internal Auditors plan their work annually, and update their plan as required during each year, with reference to the College Risk Register, and they report directly to the Audit Committee on their audit findings.
What arrangements are in place to report fraud issues and risks to the Audit and Risk Management Committee?	The College has a Fraud Policy, Whistle blowing Procedure and Anonymous Allegations Against Staff or Students procedure in place.
How does the College communicate and encourage ethical behaviour of its staff and contractors?	The College has a Code of Conduct policy which staff are expected to comply with. In addition, any contractors working in the College are also asked to comply with the policy. The Board of Management also adheres to its own Code of Conduct.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported? Have any reports been made under the Bribery Act?	Per the Fraud Policy, Whistle blowing Procedure and Anonymous Allegations Against Staff or Students procedure in place. No
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	No
Are you aware of any instances of actual, suspected or alleged, fraud, either within the College as a whole or within specific departments since 1 April 2013?	No

Laws and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Risk Management Committee, is responsible for ensuring that the College's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Risk Management Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below.

Impact of Laws and regulations

Question	Management response / Those charged with governance additional comments
What arrangements does the College have in place to prevent and detect non-compliance with laws and regulations?	Internal and external audit. Internal auditor report to Board of Management Audit Committee. The College employs own Health and Safety Officer. Senior manager with responsibility for Freedom Of Information and Data Protection. Independent professional advice is taken as and when required such as Taxation, Pension valuations, Building valuations, Building surveys, Building and liability Insurance and HR legislation.
How does management gain assurance that all relevant laws and regulations have been complied with?	Internal audit
How is the Audit and Risk Management Committee provided with assurance that all relevant laws and regulations have been complied with?	Internal and external audit
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2013, or earlier with an on-going impact on the 2013/14 financial statements?	None
What arrangements does the College have in place to identify, evaluate and account for litigation or claims?	Reporting procedures have been established to ensure that the Senior management team are alerted to any potential issues – accidents are reported via the Health and Safety Officer to the appropriate Assistant Principal; any claims received are logged and forwarded to the College insurers;
Is there any actual or potential litigation or claims that would affect the financial statements?	None
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None

Financial Reporting and Going Concern

Issue

Matters in relation to financial reporting and going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis. Although the College is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the College's financial resilience.

Financial reporting and going concern considerations have been set out below.

Financial Reporting Considerations

Question	Management response/ Those charged with governance additional comments
What has the College identified as the key events or issues that will have a significant impact on the financial statements for 2013/14?	Change to March financial year end as a result of the college being reclassified by ONS.
How do the College's risk management processes link to financial reporting?	The College has an establish risk management policy. The risk register is determined by the SMT and monitored by the Board of Management Audit Committee. Finance is one of the factors taken into account when identified risks are assessed. Any provisions are made as required.
Has the College considered the appropriateness of the accounting policies adopted? Have there been any events or transactions that may cause the College to change or adopt new accounting policies?	Yes, the accounting policies have been considered and confirmed as appropriate. No changes to policies have been considered necessary.
Have there been any changes to the College's regulatory environment that may have a significant impact on the financial statements?	Other than the accounting changes which result from the ONS re-classification of the College, nothing has been identified.
Have there been any significant transactions outside the normal course of business?	Under the ONS reclassification the college transferred £2.1m to the Scottish Colleges Foundation in order to protect reserves built up for college developments.
Is the College aware of any changes in circumstances that would lead to impairment of non-current assets?	None
Is the College aware of any new transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	None

Going Concern Considerations

Question	Management response/ Those charged with governance additional comments
Does the College have procedures in place to assess the College's ability to continue as a going concern?	Yes, regular management reporting and budgeting/ forecasting takes place during the year. Quarterly reporting to the Finance and General Purposes Committee of the Board of Management.
Is management aware of the existence of other events or conditions that may cast doubt on the College's ability to continue as a going concern?	No such events or conditions have arisen
Are arrangements in place to report the going concern assessment to the Audit and Risk Management Committee?	Yes.
Are the financial assumptions supporting the going concern assessment (i.e. future levels of income and expenditure) consistent with the College's Plans and the financial information provided to the College throughout the year?	Yes, regular management reporting and budgeting/ forecasting takes place throughout the year. From 14/15 the college has agreed a 3 year outcome agreement with the SFC
Are the implications of statutory or policy changes appropriately reflected in the College's Plans, financial forecasts and report on going concern?	Yes, regular updates take place with SMT and the Board
Have there been any significant issues raised with the Audit and Risk Management Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	None have been raised

Going Concern Considerations

Question	Management response/ Those charged with governance additional comments
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?</p>	<p>No problems have been identified</p>
<p>Does the College have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the College's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes. This is monitored by the Board of Management</p>



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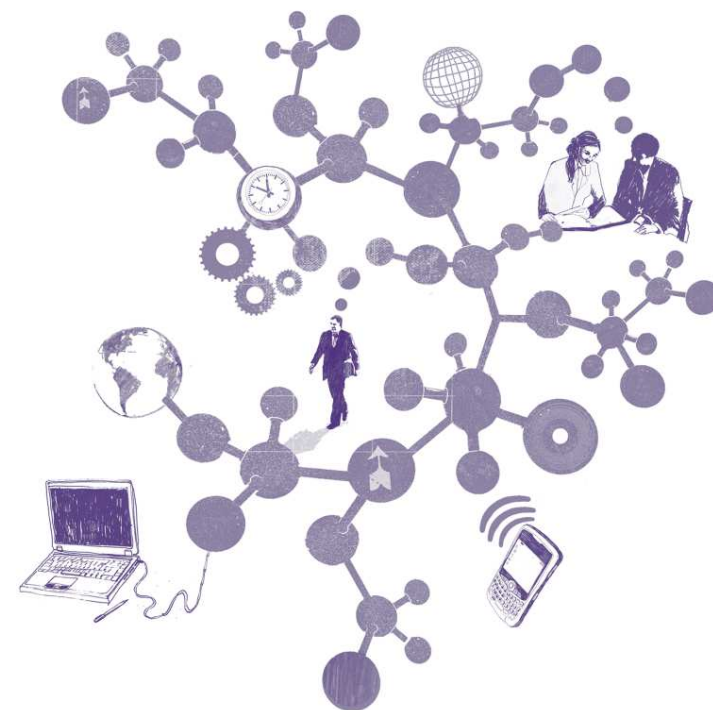
Financial Statement Audit Findings for Dumfries and Galloway College

Year ended 31 March 2014

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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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Appendices

- A Draft Audit opinion
- B Draft Letter of Representation

Section 1: Executive summary

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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 for 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 March 2014.

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 March 2014.

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

- subsequent events review to the date of signing the financial statements
- signed management representation letter.

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 expect to provide an unqualified opinion on the College's 2013-14 financial statements.

The accounts and working papers we received are a very good standard. We have identified no material adjustments. There are also no unadjusted errors in the financial statements. Any issues identified have been trivial in value or minor grammatical and presentational issues only.

The College has adapted and prepared well in order to manage the requirement to change the accounting year to 31 March for the 2013/14 financial year.

Summary of Key Findings

Reporting area	Our Summary
Financial Statements	<ul style="list-style-type: none"> We intend to give an unqualified 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 deficit on the provision of services of (£1,651k), as this included a payment of £2,120k to the arms-length foundation. In 2013 there was a surplus of £34k. At 31 March 2014, the College had a total reserves balance of £8,343k (2013: £11,060k), of which £1,729k is available as a general reserve (2013: £4,314k).
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 reviewed the assurance and governance processes the College had in place to support the payments in year to the arms-length organisation. We identified no significant deficiencies in internal controls during our audit.
Performance	<ul style="list-style-type: none"> The College achieved their target weighted student numbers (WSUMs) for the 2012/13 academic year and the College is expecting to meet this for the 2013/14 academic year also.

Looking forward

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

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
August 2014

Section 2: Financial Results

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Financial Results

Introduction

The accounts for the period ending 31 March 2014 incorporate a change of accounting year, and are therefore compiled on an eight month period from August 2013 to March 2014. From 1 April 2014 Scotland's colleges are reclassified as central government bodies for the purposes of government reporting.

Key Areas of Expenditure

The College reported expenditure of £10,583k in the current financial year. The table below shows a breakdown of this expenditure figure

	2014	2013
	£'000	£'000
Staff Costs	5,004	6,957
Arms Length Foundation	2,120	0
Depreciation	787	1,405
Other operating expenses	2,672	3,942
	10,583	12,304

Source: Dumfries & Galloway College Financial Statements 2013/14

Expenditure is reduced in 2013/14 as expected, as there are only eight months in the 2013/14 financial year.

Colleges were able to make donations to arms-length foundations in 2013/14. Cash reserves from 1 April 2014 are affected by the reclassification as all of the College income and expenditure will count as part of the Scottish Governments income and expenditure, and all expenditure net of income requires budget cover from the Scottish Government's own budget limits

During 2013/14 the College made £2,120k in donations to the Scottish Colleges Foundation. The Scottish Colleges Foundation is an independent trust established with the purpose of supporting further and higher education colleges in Scotland. The College has successfully applied in the 2014/15 financial year to the Scottish Colleges Foundation for funding for the Dumfries campus hospitality development.

Income for the year

The College reported income of £8,932k in the current financial year. Income is reduced in 2013/14 as expected, as there are only eight months in the 2013/14 financial year.

The College receives income from multiple sources as shown in the table below. It is clear from this analysis that the main source of funding is grants from the Scottish Funding Council which accounts for 79% of total income.

	2014	2013
	£000	£000
Scottish Funding Council grants	7,062	9,630
Tuition fees and education contracts	1,211	1,622
Other income	659	1,086
	8,932	12,338

Source: Dumfries & Galloway College Financial Statements 2013/14

Financial Results

Financial Position

The College's balance sheet reflects a positive financial position with net assets of £35,323k.

	2014	2013
	£'000	£'000
Non- Current Assets	40,521	41,308
Current Assets	3,128	5,174
Current Liabilities	(2,464)	(2,691)
Non current liabilities	(5,862)	(5,229)
Total net assets	35,323	38,562

Source: Dumfries & Galloway College Financial Statement s 2013/14

The reduction in net assets is largely due to the £2,120k donation to the arms-length foundation in 2013-14, therefore reducing the current assets cash balance.

Looking Forward

Dumfries and Galloway College's objectives remain broadly similar to those in 2013/14 and achieving the targets set out in the Outcome Agreement for 2014/15 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.

In 2014/15 the College is undertaking a substantial capital programme with the hospitality redevelopment within the Dumfries Campus to establish a training kitchen and restaurant. The College plans to re-introduce hospitality and catering courses.

There will be considerable pressure on the finance team in 2014/15 to make the transition to the requirements for central government reporting, as well as transferring to a new financial reporting framework in 2015/16.

Implications for the move to International Financial Reporting Standards in 2015/16 have been assessed by the College, and an Action Plan is in place to manage the significant changes in accounting and reporting requirements.

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 March 2014.

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 anticipate that we will provide the College with an unmodified opinion conclude that the financial statements are prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code. Our audit opinion is set out in Appendix A.

Our work has covered the regularity assertion, and we are satisfied from our sample testing, that transactions are in accordance with the Scottish Funding Council's Financial Memorandum.

Changes to the audit plan

During the conduct of our audit, we have not had to alter or change our audit plan issued in March 2014.

Outstanding matters

Our audit is substantially complete. We continue to finalise our audit procedures in the following areas:

- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

The draft management letter of representation is attached as Appendix B to this report.

Audit amendments

There was one trivial financial amendment identified in the accounts for £5k, and the College has chosen to amend for this error. This reduced grant income by £5k and increased the deficit in the year by £5k. Any amendments made were minor in number and nature to correct grammar and presentation only. There are no unadjusted errors identified in the financial statements.

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 2013-14. We outline our response to the significant risks of material misstatement below.


	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	Tuition and Fee Revenues 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 transactions, with no issues arising • Review the period end balances and agree a sample to post period end receipts • 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.	Employee remuneration Completeness of employee remuneration accruals	<ul style="list-style-type: none"> • We completed detailed substantive testing of the employee remuneration processes on a sample of transactions during the year, with no issues arising • Analytical Review of payroll expenditure • Reconciliation of the employee remuneration cost is reflected in the ledger • Testing of employee remuneration accruals. 	Our work did not identify an issues in respect of employee remuneration.
3.	Operating Expenses Completeness of creditors and provisions	<ul style="list-style-type: none"> • Substantive testing of accruals, payables and provisions • Review of judgements associated with accruals • Cut off after date testing • Review and test the accounting and calculations for VAT against HMRC's guidance on the Lennartz Mechanism of accounting for VAT. 	Our work did not identify an issues in respect of operating expenses and provisions.

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>
5.	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 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>

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. 	 (Green)

Assessment




-  **(Red)** Marginal accounting policy which could potentially attract attention from regulators
-  **(Amber)** Accounting policy appropriate but scope for improved disclosure
-  **(Green)** 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>	<p>● (Green)</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"> The accounting policies are appropriate under the SORP We have no further comments to raise with the Audit Committee 	<p>● (Green)</p>

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.

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 requested 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 2014/15 onwards

In this section we highlight the key changes affecting the financial statements in 2014-15.

Reclassification of Colleges

The Office of National Statistics (ONS) reclassification of Further Education Colleges to central government bodies comes into force from 1 April 2014.

From 2014/15 there will be a requirement for the financial statements to comply with the Government Financial Reporting Manual (FReM). This has resulted in a significant number of accounting implications which have an impact on the 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.

The College will have to consider the implications of this decision and how the changes can be managed to deliver these changes. The College has started work early on IFRS conversion and has a timetable and Plan of key issues for conversion.

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.

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

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 2013/14. We conducted testing on journal entries and related party transactions to highlight any unusual transactions. There were no issues arising from this testing.

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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

Performance Indicators

In accordance with SFC requirements the College monitors and reports progress on national priorities. The College does this through their 'Key Indicator Report'. Key priorities being monitored are:

- Weighted student numbers (WSUMs)
- Enrolments
- Retention
- Finance
- Staffing

There is financial penalty through grant claw-back if the WSUMs actuals are lower than 98% of the target. The College achieved their target weighted student numbers for the 2012/13 academic year and the College is expecting to meet this for the 2013/14 academic year also.

Section 6: Fees, non audit services and independence

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

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 £
External Audit - College	14,100	14,100
Total audit fees	14,100	14,100

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.

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

01. Executive summary

02. Financial results

03. Audit findings

04. Fees, non audit services and independence

05. Performance

06. Fees non audit services and independence

07. Communication of audit matters

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 Dumfries and Galloway College for the period ended 31 March 2014 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Income and Expenditure Account, the Statement of Historical Cost Surpluses and Deficits, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

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.

Generic scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the audited financial statements and to identify

any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 March 2014 and of its deficit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.

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 period 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

Gary Devlin, for and on behalf of Grant Thornton
7 Exchange Crescent, Edinburgh, EH3 8AN

Date

Gary Devlin is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

Appendix B: Draft Letter of Representation

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

xx August 2014

Dear Sirs

Dumfries and Galloway College: Financial Statements for the Year Ended 31 July 2014

This representation letter is provided in connection with the audit of the financial statements of Dumfries and Galloway College for the period ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with Statement of Recommend Practice: Accounting for Further and Higher Education Institutions (The SORP). We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities, as set out in the terms of the Audit Scotland appointment letter dated 23 May 2011 and the Financial Memorandum agreed between the Scottish Funding Council and the College for the preparation of the financial statements in accordance with the SORP. In particular, the financial statements give a true and fair view of Dumfries and Galloway College's state of affairs as at 31 March 2014 and of its income and expenditure for the financial period.
- ii. We are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions of the College conform to the authorities that govern them. In addition, we are responsible for ensuring that funds from the Scottish Funding Council are used only in accordance with the Financial Memorandum with the Scottish Funding Council and any other conditions that the Scottish Funding Council may prescribe from time to time.
- iii. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable..
- v. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the SORP .
- vi. All events subsequent to the date of the financial statements and for which the SORP requires adjustment or disclosure have been adjusted or disclosed.
- vii. The financial statements are free of material misstatements, including omissions.

Information Provided

- viii. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- ix. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- x. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
- xiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xiv. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- xv. We confirm that transfers made to the arm's length foundational trust were done so before the period end and to a trust independent of the College..

Yours faithfully

XXX

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



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Board of Management

DRAFT ANNUAL REPORT BY THE AUDIT COMMITTEE TO THE BOARD OF MANAGEMENT

1 PURPOSE OF REPORT

To advise the Board of Management of the activities and decisions of the Audit Committee during Financial Period 2013-14 and to provide opinions on matters specified by the Code of Audit Practice.

2 BACKGROUND TO REPORT

It is a requirement of the Code of Audit Practice and the College's Standing Orders and Financial Regulations that the Audit Committee provides the Board with an Annual Report so that all members of the Board can be fully informed of, amongst other things, aspects of the system of Internal Control.

3 ADMINISTRATIVE MATTERS

3.1 The period covered by this report is the eight month period 1 August 2013 to 31 March 2014.

3.2 The membership of the Committee during the period was:

H Carr (Chair)
D Holland
S Burgess
F Sanderson (until 17.12.13)
K MacGillivray Fallis
S Martin (from 17.12.13)

3.3 During the relevant period, the Committee's formal meetings were as follows:

30 September 2013	3 members attended (60%)
11 March 2014	4 members attended (80%)

There was an average attendance of 3.5 members.

3.4 Additional members from the Board may be appointed to the Audit Committee when the Regional Board has been established in August 2014.

3.5 Due to the change in the College financial year-end and ONS developments, a further two meetings were held during the period in addition to the formal meetings noted above in order to ensure matters arising were considered in a timely manner. A clearance meeting was held with the External Auditors on 15 November 2013, and a meeting to discuss ONS changes and the implications of a potential transfer of funds to an Arms Length Trust was held on 11 February 2014.

Board of Management

- 3.6 The calendar of meetings has been updated going forward in order to allow for the changes in the financial year-end for external and internal audit reporting.

4 INTERNAL AUDIT

- 4.1 Baker Tilley Risk Management acted as internal auditors throughout the year.
- 4.2 A summary of the work of internal audit during the year, and the recommendations made, is detailed below:

Report	Number of Recommendations	Number of Recommendations Accepted	Number of Recommendations not Accepted
Student Activity	0	0	0
Student Support Funds	0	0	0
Value for Money – Open Learning	3	3	0
Income and Debtors	3	3	0
Procurement and Payments	2	1	1
VFM – Work Based Learning	5	5	0
Follow-Up	4	4	0
Total (2013/14)	17	16	1
Total (2012/13)	19	19	0
Total (2011/12)	15	14	1
Total (2010/11)	11	11	0
Total (2009/10)	11	11	0
Total (2008/9)	25	23	2
Total (2007/8)	8	8	2
Total (2006/7)	67	49	18

- 4.3 The recommendations are categorised by the auditors according to the level of priority – High, Medium and Low, and are prioritised to reflect the auditors' assessment of risk associated with the control weaknesses.

In addition, Suggestions may be included as part of the Action Plan reported. These are not formal recommendations that impact the overall audit opinion, but used to highlight a suggestion or idea that management may want to consider.

16 of the recommendations made during the year were categorised as Medium Priority, with 1 categorised as Low Priority.

No High Priority Recommendations were made during the year.

Board of Management

- 4.4 Where a recommendation is not accepted this is documented in the individual audit reports considered by the Audit Committee. In general, recommendations may not be accepted where it is considered that the benefits of implementation are outweighed by the costs.
- 4.5 Assurance on the adequacy of internal controls within the College arises only from the results of reviews that have been completed during the period in accordance with the programme approved by the Audit Committee. In this context it is important to note that:
- It is management's responsibility to maintain internal controls on an ongoing basis;
 - The internal audit function forms part of the overall internal control structure of the Board; and
 - Whilst the Internal Auditors have planned their work so that they have a reasonable expectation of detecting significant control weakness, internal audit procedures do not guarantee that fraud will be detected.

It is the responsibility of internal audit to assess the adequacy of the internal control arrangements put in place by management and to perform testing to ensure that these controls were operating for the period under review.

- 4.6 Baker Tilley have provided their Annual Audit Report for 2013/14. Their report provides a positive Internal Audit Assurance Statement, an extract from which is noted below:

'We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion on the efficiency and effectiveness of Dumfries and Galloway College's arrangements.

For the 8 months ended 31 March 2014, based on the work we have undertaken, in my opinion Dumfries and Galloway College has adequate and effective governance, risk management and control processes to manage the achievement of its objectives'.

A copy of the full report is detailed in RSM Tenon's Internal Audit Annual Report for the period ended 31 March 2014.

5 EXTERNAL AUDITORS

- 5.1 The external auditors for the period to 31 March 2014 were Grant Thornton UK LLP, 1/4 Atholl Crescent, Edinburgh EH3 8LQ. Grant Thornton have been engaged to carry out the external audit for financial years 2011/12 to 2015/16.
- 5.2 The fundamental objective of the planning, approach and execution of the audit is to enable the auditors to express an opinion on whether or not the financial statements, as a whole, give a true and fair view of the activities of the College since the last audit and of its state of affairs as at the Balance Sheet date.
- 5.3 We confirm that the external auditors have been approved by the Auditor General in accordance with the Code of Audit Practice and the letter from the Auditor General dated 20 April 2000 for provision of external audit services for the financial period 2013-14.
- 5.4 The external audit of the financial statements for the period ended 31st March 2014 is currently being completed, and Grant Thornton are expected to issue their external audit report in August.

Board of Management

6 THE FINANCIAL STATEMENTS

- 6.1 The Auditors' draft report is an unqualified report on the financial statements, and this will be finalised when the financial statements have been formally approved,. The draft report is as follows:

'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 March 2014 and of its deficit for the period then ended;*
- *have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and*
- *have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006.*

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 period 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.'

7 VALUE FOR MONEY PROGRAMME (VFM)

- 7.1 Value for Money Audit work on Open Learning and Work Based Learning were undertaken during 2013-14.
- 7.2 The review of Open Learning was undertaken to provide information which would enable the College to consider whether the current fees charged for open learning courses are the most appropriate and represent the best value for money. The report concluded that the College does not have sufficient management information regarding the costs to enable it to make an informed decision on fees and charges. However, the report also noted that, providing the proposed data collection mechanisms are maintained, then appropriate information should be generated from the 2014-15 academic year. Three recommendations were made on capturing and measuring costs, analysing data, and comparison of costs and income.

Board of Management

- 7.3 The review of Work Based Learning was undertaken to provide information which would enable the College to consider whether the current fees charged for work based learning courses are the most appropriate and represent the best value for money. The report concluded that the College does not have sufficient management information regarding the costs to enable it to make an informed decision on fees and charges, and five recommendations were made on capturing and measuring costs, analysing data, and comparison of costs and income.

8 OTHER MATTERS

- 8.1 There are no matters arising from trusts, joint ventures, subsidiary or associated companies.
- 8.2 There were no issues of alleged fraud/irregularity investigated during the audit period.
- 8.3 There are no foreseeable events that will affect the work of the Audit Committee.

9 OPINION

- 9.1 The Audit Committee's opinion will be reported for the final report following completion of the Financial Statements audit, when the External Auditors' reports have been finalised.

Dumfries and Galloway College

Internal Audit Strategy 2014/2015 - 2016/2017

Presented at the Audit Committee meeting of:

19 August 2014

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Internal Plan approved by: Patrick Green

Baker Tilly Risk Advisory Services LLP, August 2014

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

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

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

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

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

Baker Tilly Risk Advisory Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.

1 Developing the Internal Audit Strategy

This document sets out the approach we have taken to develop your internal audit strategy for 2014/2015 – 2016/2017 and the annual plan for 2014/2015.

1.1 Role of Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Definition of Internal Audit: Public Sector Internal Audit Standards.

In line with the requirements of the Public Sector Internal Audit Standards (PSIAS), we plan and perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that Dumfries and Galloway College has in place, focusing in particular on how these arrangements help the organisation to achieve its objectives. This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee. Our plan is developed to enable us to provide an opinion at year end, which may also be used by the Board to support its Annual Governance Statement.

1.2 Factors influencing Internal Audit coverage

The College's objectives are the starting point in the development of the audit strategy, along with the risk register.

Appendix A reflects the range of potential issues that may affect the College, some of which are included on your risk register. These were used to focus our discussions with management regarding assurance priorities and to determine where internal audit input would be most beneficial.

In preparing the strategy and the annual internal audit plan, we met with the Assistant Principal and the Finance Manager.

The key areas / factors are summarised below.

Key areas discussed and their impact on the internal audit strategy

- 1 Following reclassification as a public body, the College is now required to prepare and submit monthly cashflow forecasts to the Scottish Higher and Further Education Funding Council. This is a new process and previously the College did not prepare cashflow forecasts in the level of detail currently required. We will therefore review the procedures as part of our 2014/15 plan in order to provide assurance that the College is complying with the new requirements.

This also replaces the review of Financial Planning, originally scheduled for coverage in 2014/15.

- 2 The Colleges Transform Project on flexible blended learning delivery ended and the final claim submitted in June 2014. We will consider whether the project has delivered the intended benefits and outcomes. This will also inform our Value For Money opinion in 2014/15.

- 3 The College is entering year 2 of the collaborative arrangements with the University of West Scotland and provides learning on behalf of a number of other partners. We will consider the procedures for entering into partnership arrangements and how these are monitored to ensure the College's reputational risk is managed. This will also help inform our Value For Money opinion in terms of the governance and business decisions to enter into the arrangements.

- 4 Institutional Sustainability – the College is required to have in place a framework of Institutional Sustainability. The current framework has been in place for a number of years and the College feels that this needs to be refreshed. We have therefore included time within the 2014/15 plan to provide support to the College in undertaking the refresh.

- 5 The College has introduced a new Human Resources system from August 2014. We have therefore included within the 2014/15 plan a Human Resources Effectiveness review which will provide a high level review of a number of key HR process including. This replaces the planned review of Staff Development and Succession Planning as these will be incorporated into the Human Resources Effectiveness review.

Key areas discussed and their impact on the internal audit strategy

- 6 Scottish Parliament are currently considering a Procurement Reform bill which is likely to be passed through Parliament in December 2014 with changes coming into effect from 1st January 2015. This will have an impact on the Colleges Financial Regulations and procurement procedures, however is it unlikely that between January and the year-end of 31 March 2015 there will have been sufficient time for changes to have been embedded therefore, we have scheduled this review for consideration in 2015/16.
-
- 7 In order to accommodate the reviews added into the plan as a result of the substantial changes in requirements on the College following reclassification, the reviews of and Safeguarding and Curriculum Planning have been deferred for consideration from 2014/15 to 2015/16 as these are considered lower risk by the College. Safeguarding checks carried out as part of the recruitment process will however, be included within the Human Resources Effectiveness review scheduled for 2014/15.
-

Following the reclassification of all Scottish Colleges as Public Bodies and the subsequent change to a 31 March financial year end; from 2014/15 will align our internal audit plans to this. Our 2014/15 plan will be delivered from 1 August 2014 to 31 March 2015 with our 2014/15 annual opinion covering the same period, and future years will be 1 April to 31 March.

The strategy is set out at Appendix B, with the detailed internal audit plan for 2014/2015 set out at Appendix C.

As well as assignments designed to provide assurance or advisory input around specific risks, the strategy includes:

- Planned assurance on core areas of activity;
- Time to follow up previous recommendations and actions to provide the Audit Committee with assurance on the actions taken by management to address previous internal audit recommendations; and
- Audit management, which is used at Partner and Manager level for quality control, client and external audit liaison, preparation of the annual opinion, and attendance at Audit Committee.

2 Assurance Resources

2.1 Your Internal Audit Team

Your internal audit team is led by Patrick Green as Head of Internal Audit.

Your Client Manager is Lindsay-anne Straughton.

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing standards.

2.2 Internal Audit Fees

The fee for your internal audit service for 2014/2015 is £16,340.

2.3 Working with other assurance providers

We intend to meet with the External Auditor to avoid duplication of coverage between Internal and External Audit. This will also ensure that External Audit can continue to place their planned level of reliance on our coverage of financial controls.

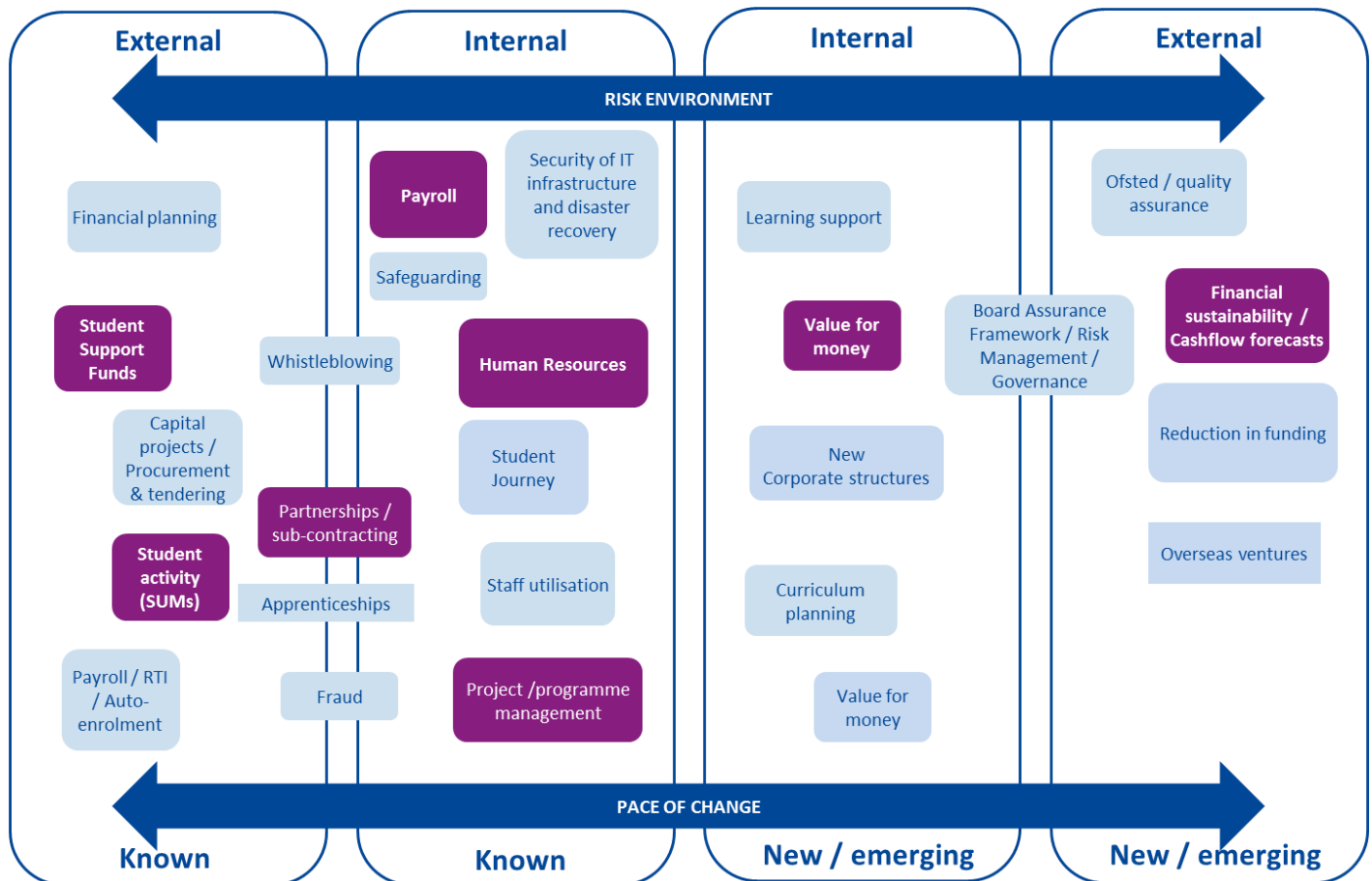
The Audit Committee is reminded that internal audit is only one source of assurance. Through our plan we do not seek to cover all risks and processes. We will however, seek to work closely with other assurance providers to ensure that duplication is minimised and a suitable breadth of assurance obtained.

2.4 Considerations for the Audit Committee

- Does the Internal Audit Strategy (Appendix B) cover the College's key risks as they are recognised by the Audit Committee?
- Does the internal audit plan for 2014/2015 (Appendix C) reflect the areas that the Audit Committee believes should be covered as priority?
- Is the Audit Committee satisfied that sufficient assurances are being received to monitor the organisation's risk profile effectively, including any emerging issues / key risks (Appendix A) not included in the strategy or annual plan?

Appendix A: Issues affecting Dumfries and Galloway College

The chart below reflects some of the current issues facing the organisation. Those topics which have been highlighted (in purple) are those where internal audit coverage is planned in the coming year.



Appendix B: Internal Audit Strategy 2014/15 – 2016/17

Auditable Area	Risks / Rationale	2014/2015	2015/2016	2016/2017
Risk based reviews				
Student Activity Data (SUMs)	Unable to achieve SUMs target Risk Register 1	✓	✓	✓
Partnerships Collaborative Arrangements	Loss of collaborative partnership arrangements Risk Register 2	✓		
Student Support Funds and Education Maintenance Allowances (EMA)	Imbalance between demand for student support fund/bursaries and funds available Risk Register 3	✓	✓	✓
Strategic Planning	Review of funding methodology impacts of financial sustainability Risk Register 4 Reduction in SFC Core Grant Risk Register 10 Changes to structure in FE Colleges adversely affects the College Risk Register 11 ONS reclassification of College impacts on governance, financial arrangements and ability to develop capital projects Risk Register 12		✓	
Business Continuity Planning	Disruption to business continuity due to influenza pandemic, terrorism, fire or other disaster Risk Register 6			✓
Student Journey	Failure to maintain student numbers Risk Register 7			✓
Marketing Communications and	Failure to maintain student numbers Risk Register 7 Downturn impacts on recruitment of Modern Apprentices. Risk Register 18			✓
Health and Safety	Health and safety incident due to quality of the construction of balustrades Risk Register 14			✓

Auditable Area	Outline Scope	2014/2015	2015/2016	2016/2017
Core assurance. Including areas where external audit will place reliance on our work				
Governance	<p>In 2014/15 our governance opinion will be taken from reviewing the governance and reporting arrangements in place during the following reviews:</p> <ul style="list-style-type: none"> • Transform Project. • Partnerships / Collaborative Arrangements. • Human Resources Effectiveness. 	✓	✓	✓
Risk Management.	<p>Risk Management is a core component of the College's internal control system and a means of addressing and monitoring the key risks that threaten the attainment of the business objectives.</p> <p>The assessment of risk management feeds into the annual internal audit opinion on the adequacy of risk management, governance and control.</p> <p>In 2014/15 we will place reliance upon the reporting framework and our work completed from the risk based section of this plan.</p>	✓	✓	✓
Value For Money	<p>Annual requirement of the Scottish Higher and Further Education Funding Council.</p> <p>In the current climate college's 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.</p> <p>In 2014/15 our VFM opinion will be derived from our reviews of:</p> <ul style="list-style-type: none"> • Transform Project. • Partnerships / Collaborative Arrangements. 	✓	✓	✓
Equality and Diversity	A review of compliance with the requirements of the Data Protection Act		✓	
Curriculum Planning	To provide assurance that the College has processes in place to deal with and respond to the Governments agenda and to develop curriculum plans which meet funding targets and the needs of learners.		✓	
Transform Project	To provide assurance that the outcomes and were clearly defined, have been monitored and that evidence is in place to confirm that these have been achieved.	✓		

Auditable Area	Outline Scope	2014/2015	2015/2016	2016/2017
Information Technology	It is essential that the College has a robust IT infrastructure and systems in place to meet the needs of the College and its learners. The review will focus on a key area of IT risk within the College, to be discussed and agreed with management at the time.			✓
Data Quality: Management Reporting	Following the Colleges review and refresh of the Institutional Sustainability Framework, we will carry out a review of the reporting framework in place, with particular focus on the quality and accuracy of data being reported to management and the Board.		✓	
Payroll.	Payroll represents one of the largest areas of spend for the College and thus it is key that this is subject to an appropriate framework of control.	✓		
Fundamental financial and asset controls.	Cyclical coverage of key financial systems including: <ul style="list-style-type: none"> • Budget Setting, Monitoring and Reporting. • General Ledger. • Procurement and Payments. • Income and Debtors. 		✓ ✓	✓ ✓
Safeguarding.	Non-compliance with legislation can result in a reputational risk to the College. In addition to the normal student cohort, the College recruits international students who are placed with families within the area.		✓	
Human Resources Effectiveness	Following changes to staffing and structures over recent years in it key that the College has in place effective Human Resources processes.	✓		
Other Internal Audit Activity				
Follow up	To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.	✓	✓	✓
Management	This will include: <ul style="list-style-type: none"> • Annual planning. • Preparation for, and attendance at, Audit Committee. • Regular liaison and progress updates. • Liaison with external audit and other assurance providers. • Preparation of the annual opinion. 	✓	✓	✓

Appendix C: Internal Audit Plan 2014/2015

Audit	Internal Audit Coverage	Assurance / Advisory	Proposed Timing	Proposed Audit Committee
Reviews relating to specific risks				
Student Activity Data (SUMs)	The following areas will be included: <ul style="list-style-type: none"> • Enrolment. • Programmes eligible for funding. • Student eligibility. 	Compliance	8 th September 2014	2 nd December 2014
Student Support Funds and Education Maintenance Allowances (EMA)	The following areas will be included: <ul style="list-style-type: none"> • Compliance with EMA guidance. • Compliance with Bursary / Discretionary Fund guidance. 	Compliance	22 nd September 2014	2 nd December 2014
Transform Project	The review will consider: <ul style="list-style-type: none"> • Whether the outcomes and benefits of the project were clearly defined. • How progress has been monitored and reported by the College. • Whether there is evidence to support the achievement of the outcomes. 	Assurance	6 th October 2014	2 nd December 2014
Partnerships Collaborative Arrangements /	The review will consider: <ul style="list-style-type: none"> • How the College identifies collaborative/partnership working arrangements, and whether this is proactive or reactive. • Governance arrangements in place for the approval of arrangements, including any due diligence work performed by the College and assessment of 'strategic fit'. • How the College manages and monitors partnership arrangements to ensure that the reputational risk to the College is minimised. 	Assurance	26 th November	24 th February 2015
Core assurance				
Cashflow Forecasts	This review will consider the procedures and controls in place in relation to the monthly cashflow forecasts which are prepared by the College and submitted to the Scottish Higher and Further Education Funding Council.	Assurance	6 th October 2014	2 nd December 2014

Audit	Internal Audit Coverage	Assurance / Advisory	Proposed Timing	Proposed Audit Committee
Payroll	<p>The scope of this review will include:</p> <ul style="list-style-type: none"> • Policies and Procedures, including access to the payroll system and staff training. • Authorisation of additions to and deletions from the payroll system (starters and leavers), including recovery of any overpayments. • Authorisation for amendments to the payroll standing data. • Application of voluntary deductions. • Authorisation of the payments, including exception reports and proposed payroll reports. 	Assurance	26 th November	24 th February 2015
Human Resources Effectiveness	<p>Review to focus on the effectiveness of the HR processes including:</p> <ul style="list-style-type: none"> • Recruitment, including safeguarding checks. • Performance Management and Development, including training. • Succession Planning. • Sickness Absence. • HR Policies. 	Assurance	5 th January	24 th February 2015
Institutional Sustainability	<p>Time allocated to provide support to the College in reviewing and refreshing it's Institutional Sustainability framework, including providing advice on good practice.</p>	Advisory Support	August 2014	-
Other Internal Audit Activity				
Follow up	<p>To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.</p>	Follow Up	5 th January	24 th February 2015
Management	<p>This will include:</p> <ul style="list-style-type: none"> • Annual planning. • Preparation for, and attendance at, Audit Committee. • Regular liaison and progress updates. • Liaison with external audit and other assurance providers. • Preparation of the annual opinion. 	-	As required	-