

Dumfries and Galloway College

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

Year 2015/16 (12 months ending July 2016)

November 2016



Executive Summary

Overall summary for the College

Financial statements

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

Governance

- In 2015/16 there was a new requirement to complete an Accountability Report which includes the Corporate Governance Report. Minor amendments to improve the content and consistency of the Corporate Governance Statement were agreed and have been amended by management.
- The College reported through their Corporate Governance Report that there were adequate governance processes in place during 2015/16. Our audit work supports this assessment.
- We have reviewed the processes and procedures for preparing the Corporate Governance Report to ensure compliance with the Scottish Funding Council (SFC) requirements and in accordance with the 'Code of Good Governance for Scotland's Colleges'. We found the assurance arrangements to be well structured.
- During 2015/16 the College did not donate any funds to the arms length foundation trust 'Scottish Colleges Foundation', but was in receipt of income for approved schemes. We reviewed the arrangements in place to satisfy ourselves with the governance arrangements and independence of any transactions the College has with the Trust. We are satisfied that the Trust is independent from Dumfries and Galloway College.
- Risk Management policies were in place in 2015/16 and were deemed to be reasonable and appropriate by the Board of Management, with regular update and scrutiny by the Audit Committee.
- Key elements of the College's governance framework include a Board of Management and a range of Committees, including the Audit Committee. Key governance procedures include appropriate policies to prevent and detect fraud and corruption and policies on anti money laundering and 'whistleblowing'. Arrangements were deemed reasonable and appropriate.
- The College reported no incidents of fraud during 2015/16.

Performance

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

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1. Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of Dumfries and Galloway College for 2015/16.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

Introduction

Purpose of this report

The Auditor General for Scotland appointed Grant Thornton UK LLP as auditor of Dumfries and Galloway College ('the College') for the 5 year period 2011/12 to 2015/16. This appointment is made under the Public Finance and Accountability (Scotland) Act 2000.

Our annual audit report is addressed to those charged with governance at the College, and the Auditor General for Scotland. The report summarises our opinion and conclusions on significant issues arising from our audit. The scope of our audit work was set out in our Audit Plan, which we presented to the Audit Committee on 10 May 2016.

The College's responsibilities

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

This means the College must:

- prepare financial statements which give a true and fair view of the financial position of the College and its income and expenditure for the year to 31 July 2016;
- maintain proper accounting records which are up to date; and
- take steps to prevent and detect fraud and other irregularities.

The College is also responsible for establishing proper arrangements to ensure that:

- public business is conducted in accordance with the law and proper standards; and
- public money is safeguarded and properly accounted for.

Our responsibilities

It is a condition of our appointment that we meet the requirements of the Code of Audit Practice ('the Code') which was published in May 2011, and is approved by the Accounts Commission and the Auditor General for Scotland.

The Code highlights the special accountabilities that are attached to the conduct of public business and the use of public money. This means that audits in the public sector must be planned and undertaken from a wider perspective than the private sector. Our responsibilities are outlined in **Figure 1**.

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

Under the requirements of the International Standard of Auditing (UK and Ireland) ('ISA') 260: Communication with those charged with governance, we are required to communicate audit matters arising from the audit of the financial statements to those charged with governance. This annual report to the College, together with previous reports to the Audit Committee throughout the year, discharges our ISA 260 commitments.



Acknowledgements

We would like to take this opportunity to record our thanks for the assistance provided by the Vice Principal – Corporate Services & Governance, the Finance Manager and the finance team during the course of our work.

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

Figure 1: Our responsibilities under the Code of Audit Practice

Financial Statements 

- Provide an opinion on:
- whether the financial statements provide a true and fair view of the financial position of the College;
 - whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements;
 - the regularity of expenditure and income;
 - whether the Remuneration and Staffing Report has been properly prepared;
 - whether the Performance Report is consistent with the financial statements; and
 - whether the Corporate Governance Report complies with SFC requirements.

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Corporate governance 

- Review and report on the College's corporate governance arrangements as they relate to:
- the College's corporate governance and systems of internal control, including reporting arrangements;
 - the prevention and detection of fraud and irregularity; and
 - standards of conduct and arrangements for the prevention and detection of corruption.

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Performance 

- The Public Finance and Accountability (Scotland) Act 2000 gives the Auditor General the right to initiate examinations into the economy, efficiency and effectiveness with which the College and other public bodies have used their resources to discharge their functions.
- In accordance with guidance issued by Audit Scotland, auditors may be requested to participate in a performance audit, an examination of the implications of a particular topic for the College at a local level or a review of the College's response to national recommendations.



2. Financial statements



Financial Statements

Introduction

Within this section of the report, we present our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan on 10 May 2016.

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

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

Our Review of the Financial Statements

The draft financial statements and supporting working papers were provided at the start of the audit, and queries were responded to promptly. The working papers were prepared to a good standard. A Performance Report and an Accountability Report were new requirements for 2015/16, and these were available at the start of the audit.

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

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

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

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

Financial Statements Opinion

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

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

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

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

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

We confirm there were no unadjusted misstatements in the audited financial statements.

Regularity

We did not identify any instances of irregular expenditure or non-compliance with laws and regulations.

Changes in 2015/16

FRS102 conversion

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

There are changes to the names of the financial statements:

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

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

Performance Report

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

The performance report replaced the operating and financial review.

Accountability Report

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

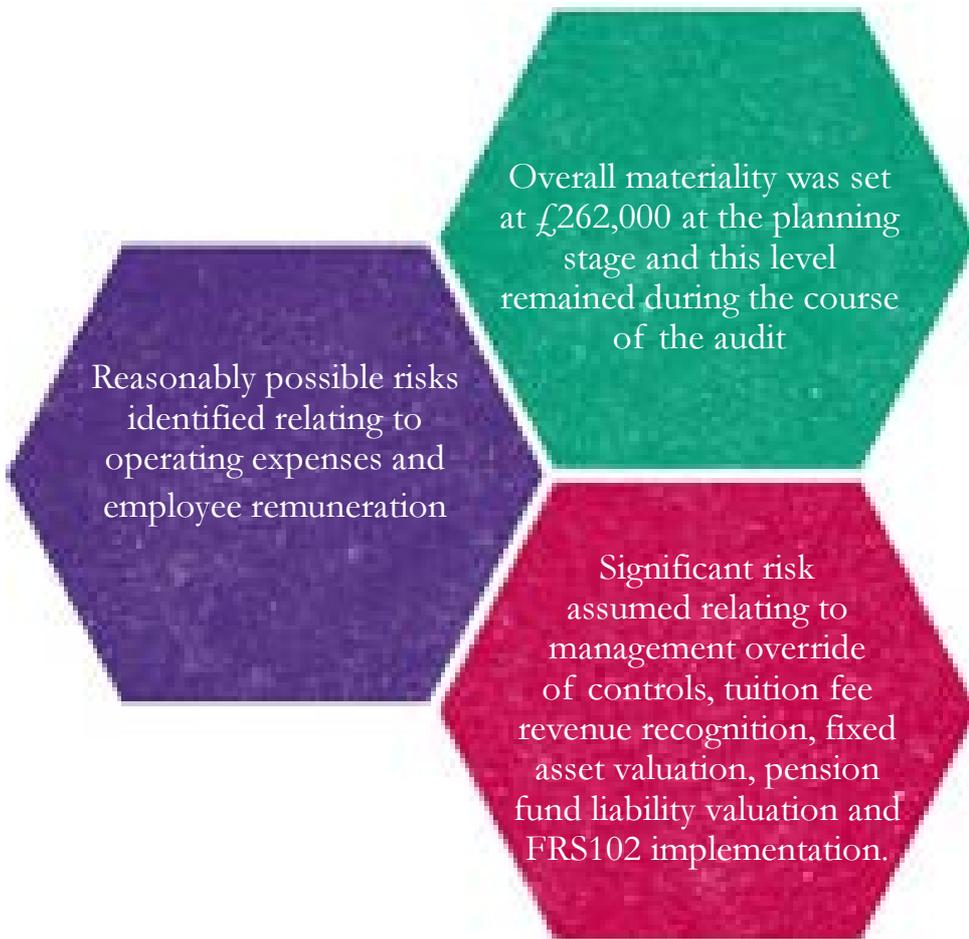
- corporate governance report, and
- remuneration and staffing report.

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

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

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

A summary of our audit plan relating to financial statements



A reminder of our approach

Scope of the Audit

We operate a risk based audit approach. The starting point for our audit was to consider the inherent risks to the College and how these may result in a material misstatement in the accounts. We identified five significant risks and two reasonably possible risks which have been outlined at **Table 1** and **Table 2**. Systems linked to those areas where we had identified a risk were subject to increased audit focus including consideration of the control environment, in particular whether the systems were operating effectively.

We conduct a range of audit procedures across all balances above performance materiality, including analytical review, agreement to third party confirmations and sample testing. Throughout the audit we have tailored the level of procedures to take account of the level of assessed inherent risk.

We also consider all disclosures in the financial statements and ensure compliance with the 2015 SORP, the Accounts Direction and whether disclosures are consistent with the information gathered from our audit work.

We did not identify any new areas of risk or change our approach over the course of the audit.

Application of Materiality

We outlined in our audit plan that we had set materiality at the College in line with ISA 320.

The primary focus of the College is to provide educational services through the use of public funds. We therefore set the overall materiality using gross expenditure as a benchmark. We established planning materiality at 2.0% of the 2014/15 gross expenditure (adjusted to reflect the change in period length from 16 months to 12 months), which resulted in overall materiality of £262,000.

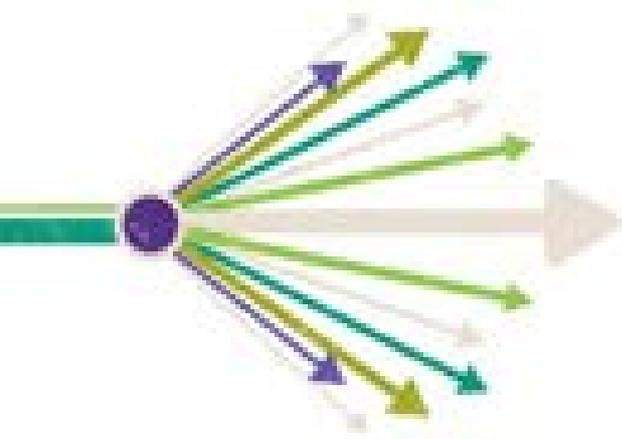
In addition to overall materiality we also establish a level for performance materiality, which as defined by ISA 320 is the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

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

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

In addition to the guidance on materiality in ISA320, ISA 450 requires the auditor to accumulate and report misstatements identified during the audit, other than those that are clearly trivial. For the purposes of this audit we have set trivial at £13,100.

Items which were considered material by nature (e.g. cash, related parties and remuneration report disclosures) were subject to a higher degree of audit scrutiny.



Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards which are detailed below. In addition we identified three other significant risks relevant to the College audit for 2015/16 which are detailed on the next page.

Table 1: Significant Risks identified at the planning stage

Risks identified in our audit plan	Work completed	Assurances and issues arising
<p>1 Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk that the risk of management override of controls is present in all entities.</p>	<ul style="list-style-type: none"> Reviewed accounting estimates, judgments and decisions made by management, tested journal entries, and reviewed unusual significant transactions. 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>
<p>2 The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the College, we determined the risk of fraud arising from revenue recognition is present for tuition fee revenues, but can be rebutted for grant income and other income. The reasons for the elements of income being rebutted is;</p> <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of further education bodies, including the College, mean that all forms of fraud are seen as unacceptable. <p>The most significant area of revenue income was SFC grant funding totalling £9,909,000, with £422,000 other income. We have substantively tested grant funding to award letters and other income to receipt.</p> <p>We reviewed and tested the income recognition policies of the College and conducted statistical sampling of the tuition fee revenues income balance of £1,719,000 to source documentation and receipt.</p>	<p>Our work confirmed that revenue had been recognised appropriately in the financial statements.</p>



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

(ISA (UK&I) 315).

Audit findings against significant risks

Table 1: Significant Risks identified at the planning stage continued

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

Audit findings against reasonably possible risks

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

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Table 2: Reasonably possible risks identified at the planning stage

Transaction cycle	Description of risk	Work completed	Assurances gained and issues arising
Operating Expenses	<p>Operating Expenses/ Creditors are understated</p> <p>The College incur expenditure to provide educational services within the Dumfries and Galloway area. In 2015/16 the other operating costs (this does not include employee, capital and financing costs) of providing these services was £3,930,000.</p>	<p>We gained assurance over the risk through:</p> <ul style="list-style-type: none"> • review of the control environment through internal controls walkthrough testing; • review of accounting estimates, judgements and the accruals accounting process, • reconciliation of the creditors system to the general ledger and financial statements and • testing of post year end transactions for potential unrecorded liabilities. 	<p>Our audit work has not identified any misstatement of operating expenses from the testing carried out.</p> <p>The control environment was considered to be operating effectively with adequate controls in place.</p>
Employee remuneration	<p>Employee remuneration accruals understated</p> <p>Employee costs in 2015/16 are £7,969,000. There are a large number of transactions processed throughout the year. The College relies on numerous controls including monthly reconciliations and segregated duties to ensure that the employee costs are recorded correctly in the financial statements.</p>	<p>We gained assurance over the risk through:</p> <ul style="list-style-type: none"> • review of the control environment through internal controls walkthrough testing; • substantive testing of employee remuneration accruals at the year end; • sample testing to agree staff members to HR system and recalculation of employer costs; and • analytical review of employee remuneration against expectations and investigate significant variances. 	<p>Our audit work has not identified any misstatement of employee remuneration from the testing carried out.</p> <p>The control environment was considered to be operating effectively with adequate controls in place.</p>

Accounting estimates, significant judgments and policies

Assessment

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

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgments made and included with the College's financial statements. Although some areas have been discussed in other parts of this report, this section reviews the accounting policy in place for key estimates and judgments.

Table 3: Accounting estimates and significant judgments and policies

Accounting area	Summary of policy	Our comments	Our assessment
Revenue recognition	<ul style="list-style-type: none"> Main annual recurrent grant income: recognised in the period they are receivable to match performance. Other Income: recognised in proportion to the extent of the completion of the contract or service concerned. Deferred grants: Income for the acquisition or construction of fixed assets are deferred and recognised in line with the depreciation over the life of the asset. 	<ul style="list-style-type: none"> The revenue recognition policies are appropriate under the Government Financial Reporting Manual (FRM). The disclosure in the draft accounts was found to be reasonable and in line with applicable policies. 	●
Property, Plant and Equipment	<ul style="list-style-type: none"> The fair value of all land and buildings is assessed by performing a full valuation at least every five years. An annual review of impairment is carried out in-between full valuations. Buildings are depreciated on a straight line basis over their expected useful lives up to 60 years. Other assets have a range of useful lives up to 10 years. Additions to assets over £10,000 are capitalised. 	<ul style="list-style-type: none"> Valuation, depreciation and capitalisation policies are considered to be reasonable and in line with the SORP. We have no issues we wish to highlight. 	●
Provisions	<ul style="list-style-type: none"> Recognised when there is a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 	<ul style="list-style-type: none"> The College has provisions, mostly for early retirement pension costs. We have no issues we wish to highlight. 	●
Remuneration and Staff Report – pension disclosures	<ul style="list-style-type: none"> Estimation of the cash equivalent transfer values (CETV) within the Remuneration Report is provided for the Scottish Teacher's Superannuation Scheme (STSS) and Local Government Pension Scheme (LGPS) to the College. 	<ul style="list-style-type: none"> We have reviewed the competence, capability and objectivity of Scottish Public Pensions Agency who provide the STSS CETV disclosures. In addition, Dumfries and Galloway Council provide the CETV LGPS disclosures, and both have been used as management's experts in year. We review the financial and non financial input provided for the calculation of the CETV disclosures. We have no issues we wish to highlight. 	●
Other Accounting Policies	<ul style="list-style-type: none"> We have reviewed the College's accounting policies against the requirements of the SORP, accounting standards and the Accounts Direction. 	<ul style="list-style-type: none"> Disclosures were in line with expectations and considered reasonable. One accounting policy on financial instruments was omitted. This is now included in the final version of the financial statements. 	●

Other areas of audit focus

Internal controls

We update our understanding of the College's operations and key financial controls systems each year and tailor our audit strategy to focus on key risk areas.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Our work focussed testing on the following areas:

- tuition fee revenues;
- operating expenses;
- general ledger journals;
- employee remuneration; and
- IT control environment.

We did not identify any significant deficiencies or material weaknesses arising from our testing of the systems above.

Overall, the results of our testing confirmed that there is a sound system of internal control covering key financial systems operated by the College.

Going Concern

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

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

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

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

Related Parties

The College is required to disclose material transactions with bodies that have the potential to control or influence the College or to be controlled or influenced by the College.

In year the College disclosed its related party disclosures. The SFC recurrent grant income is already disclosed separately within the financial statements.

We have used computer aided audit techniques to search for material undisclosed related party transactions. From this testing we did not find any related party balances which had not been disclosed in the figures above or elsewhere in other disclosures in the financial statements.

3. Governance



Governance

Corporate Governance Report

The College reports compliance with the UK Corporate Governance Code with the elements that applicable to be applied in a public sector further education setting. Our audit work supports this assessment.

Some minor changes were made to update the statement during the course of the audit by management to reflect the most up to date information.

We have reviewed the processes and procedures for preparing the Corporate Governance Report to ensure compliance with the SFC (SFC) requirements and in accordance with the 'Code of Good Governance for Scotland's Colleges'. We found the assurance arrangements to be well structured.

Review of Governance and Scrutiny arrangements

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

As part of our annual audit process we are required to review the governance arrangements in place at the College. The College operates a Regional Board, Board of Management supported by six key committees:

- Human Resources Committee
- Board Development Committee
- Remuneration Committee
- Audit Committee
- Finance and General Purposes Committee
- Learning and Teaching Committee

The Board of Management has delegated responsibility for scrutiny to the Audit Committee, and the arrangements in place are working effectively.

Risk management

The College's Corporate Governance Statement discloses its approach to risk management. The College has risk registers in place at corporate, directorate and service level. Risks are reviewed regularly with the work of the senior management team. Risks are reported to both the Board and the Audit Committee.

Risk Management policies were in place in 2015/16 and were deemed to be reasonable.

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

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

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

Internal Audit

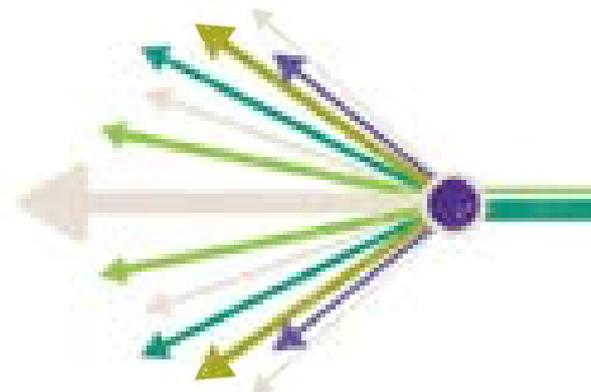
The College's internal audit function is provided by RSM, an external firm of accountants. Internal audit provide an annual opinion to the Audit Committee on the assurance framework. In 2015/16 they issued the following opinion:

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

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

In 2015/16, the programme of work covered:

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



Prevention and Detection of Fraud and Irregularity

The integrity of public funds is a key concern for the organisation and for auditors. As external auditors, we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.

The College reviewed its fraud prevention/whistleblowing policy during 2015/16 as part of the annual process on the reporting of fraud and whistleblowing. No significant changes were made to the policy.

The College reported no incidents of fraud during the 2015/16 period.

Arrangements for maintaining Standards of Conduct and detection of corruption

In line with the Ethical Standards in Public Life (Scotland) Act 2000, the College has established a Code of Conduct for Board Members, which was approved by Scottish Ministers. A register of interests is available for each Board member on the College's website, and declarations of interest are made at each committee meeting.

Arm's length foundations for colleges (ALFs)

The Scottish Government budget regulations limit the Colleges ability to carry cash reserves and retain surpluses. In order to mitigate the impact of the reclassification the Scottish Government approved the following actions prior to 1 April 2014:

- establishment of a college sector umbrella foundation;
- establishment of a separate foundation for each college, as required; and
- transfer of colleges cash-backed reserves and on-going surpluses to the above foundations.

The College elected to donate to the ALF 'Scottish Colleges Foundation'.

A critical element in establishing the ALF was ensuring they could be shown to be independent of the College so transfers of reserves would be outside the Scottish Government budgeting boundary.

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

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

We are satisfied that the Trust is independent from Dumfries and Galloway College. This will continue to be an annual consideration of both the College and external auditor.



4. Performance



Performance

Development of the Strategic Plan

The College's 'Vision 2020' sets out the strategic themes, priorities and objectives for the College. This is underpinned by the strategic outcomes in the Scottish Funding Agreement 2015/17 which is updated annually and sets out the College's annual priorities.

The agreement is underpinned by five outcomes which have been agreed with the SFC and therefore contribute to the Scottish Government's National Performance Framework and strategy for creating a smarter Scotland:

- To deliver an efficient regional structure to meet the needs of the Region;
- to contribute to meeting the national guarantee for young people;
- to ensure students are qualified to progress through the system in both an efficient and flexible manner;
- to ensure students are qualified and prepared for work and to improve and adapt the skills of the region's workforce; and
- to secure, well managed and financially and environmentally sustainable colleges.

As part of this plan the College has identified key tasks for 2015/16 with a focus on partnership working, employer engagement and on-going curriculum review and development. There are clear timelines outlined in the plan with identified targets for delivery and performance indicators.

Performance reporting

The College use a range of targets and key performance indicators (KPIs) to monitor performance. Performance is monitored by the Board of Management and senior management team throughout the year.

The Report and financial statements summarises performance against the College's main KPIs for the year as part of the Performance Report. In accordance with SFC requirements, the College monitors and reports progress on national priorities regularly. This includes trend analysis reporting and sector average comparisons.

The KPI's selected were agreed by the College as most relevant and targets were set and reviewed on an on-going basis. The College achieved 98.4% of its credits for student activity for the 2015/16 academic year, with a delivery of 29,871 credits against a target of 30,371 credits.

The College monitors courses targets for early withdrawal, further withdrawal, partial success and learner success. These are split across both further and higher education courses, and across full and part-time study. The College set higher targets in all of these indicators in 2015/2016 when compared to 2014/15. The targets are reviewed regularly and they are challenging.

Running Cost Expenditure

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

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

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

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

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

Financial Position

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

Table 4: Balance Sheet

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

Scotland's Colleges 2016

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

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

Recommendations to Colleges in the report were:

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

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

Audit Scotland data returns

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

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

Appendices

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Appendix A



Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm the fees for other services.

Fees

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

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

Fees for other services

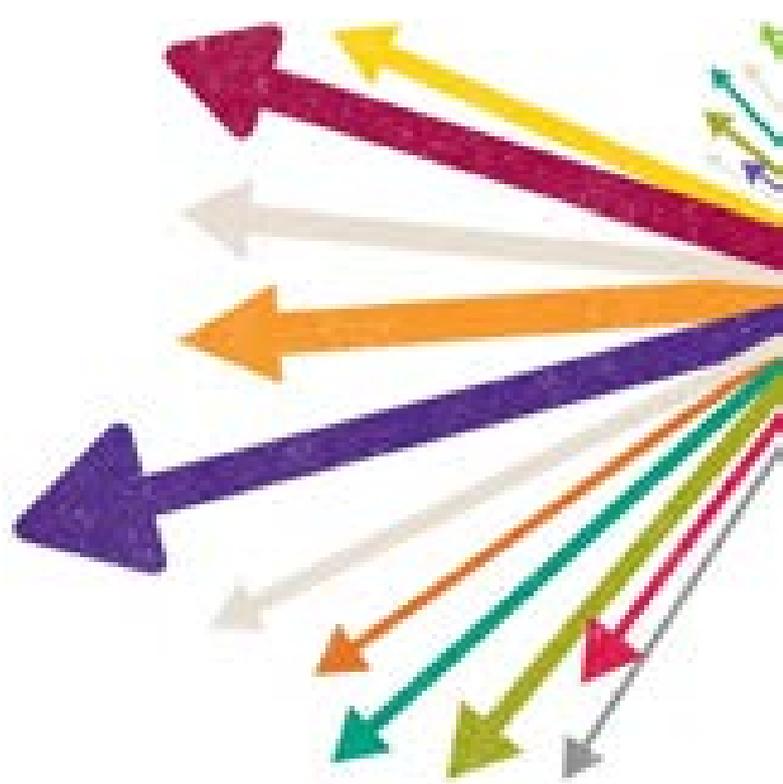
Service	Fees £
FRS102 – An overview of key changes	4,000

Fees are exclusive of VAT.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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



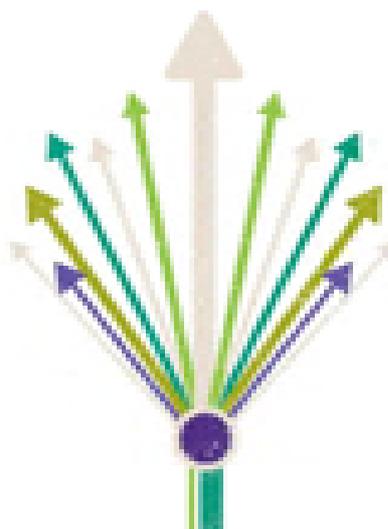
Appendix B



Other communication requirements

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

Issue	Commentary
1 Written representations	<ul style="list-style-type: none"> • A letter of representation has been requested from Dumfries and Galloway College. • Additional disclosure was added to confirm the independence of the ALF. • The letter of Representation includes standard paragraphs covering areas including; <ul style="list-style-type: none"> – significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable; – responsibility for the design and implementation of internal control to prevent and detect error and fraud; – related party relationships and transactions being appropriately accounted for and disclosed in accordance with the requirements of the Government Financial Reporting Manual and the Scottish Public Finance Manual; and – all events subsequent to the date of the financial statements and for which the Government Financial Reporting Manual and International Financial Reporting Standards requires adjustment or disclosure having been adjusted or disclosed.
2 Disclosures	<ul style="list-style-type: none"> • Our audit work identified no material omissions in the financial statements. Minor adjustments were noted to disclosure notes to improve consistency and readership. Any disclosure amendments are noted in Appendix E.
3 Matters in relation to fraud	<ul style="list-style-type: none"> • Management indicated there were no identified fraud issues during 2015/2016. No other issues have been identified during the course of our audit procedures.
4 Matters in relation to laws and regulations	<ul style="list-style-type: none"> • We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
5 Matters in relation to related parties	<ul style="list-style-type: none"> • We are not aware of any related party transactions which have not been disclosed.
6 Going Concern	<ul style="list-style-type: none"> • We have considered managements assessment of going concern. Our work has identified no significant issues in relation to going concern.
7 Confirmation requests from other parties	<ul style="list-style-type: none"> • We received external confirmations from the College's bankers to confirm the cash balances held.



Appendix C



Draft Independent Auditors Report

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

We have audited the financial statements of Dumfries and Galloway College for the year ended 31 July 2016 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, Statement of Cash Flows, Statement of Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Financial Reporting Standard (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the Board of Management and auditor

As explained more fully in the Statement of Board of Management's Responsibilities, the Board of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the college's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2016 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Draft Independent Auditors Report continued

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinion on other prescribed matters

In our opinion:

- the part of the Remuneration and Staffing Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staffing Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Corporate Governance Report does not comply with Scottish Funding Council requirements.

We have nothing to report in respect of these matters.

Jackie Bellard

For and on behalf of Grant Thornton UK LLP

4 Hardman Square

Spinningfields

Manchester

M3 3EB

xx December 2016

Jackie Bellard is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000

Appendix D



Draft Letter of Representation

Grant Thornton UK LLP

4 Hardman Square

Spinningfields

Manchester

M3 3EB

xx December 2016

Dear Sirs

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

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

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

We have fulfilled our responsibilities, as set out in the terms of the Audit Scotland audit engagement letter dated 23 May 2011 and the Financial Memorandum agreed between the Scottish Funding Council and the College, for the preparation of the financial statements in accordance with UK GAAP; in particular the financial statements give a true and fair view in accordance therewith and comply with the Statement of Recommended Practice - Accounting for Further and Higher Education ('SORP') as issued in March 2014 and any subsequent amendments; and applicable law, and for making accurate representations to you.

We are responsible for ensuring that expenditure and income are applied for the purposes intended by Parliament and that the financial transactions of the College conform to the authorities that govern them. In addition, we are responsible for ensuring that funds from the Scottish Funding Council are used only in accordance with the Financial Memorandum with the Scottish Funding Council and any other conditions that the Scottish Funding Council may prescribe from time to time.

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

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

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

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

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

Draft Letter of Representation continued

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

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

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

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

Information Provided

We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of your audit; and
- unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

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

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud or error.

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

We have disclosed to you our knowledge of fraud or suspected fraud that we are aware of and that affects the entity and involves:

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

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

We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

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

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

We confirm the arms-length trust foundation Scottish Colleges Foundation is independent of the College and is therefore not required to be consolidated into the College's financial statements.

Yours faithfully

Signed on behalf of the Board of Management of Dumfries and Galloway College

Appendix E



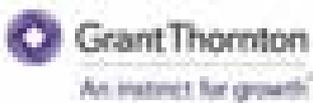
Misclassifications and disclosure changes

The tables below separately provides details of misclassifications and disclosure changes identified during the audit which have all been made in the final set of financial statements. Other minor amendments to improve consistency and readability were also made by management but are not separately listed.

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

Misclassifications and disclosure changes continued

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



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