



# Dumfries & Galloway College

External Audit Annual Plan

2020/21

May 2021



# Table of Contents

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|                                                                    |    |
|--------------------------------------------------------------------|----|
| Introduction                                                       | 3  |
| Respective responsibilities of the auditor and Board of Management | 6  |
| Audit strategy                                                     | 11 |
| Annual report and accounts                                         | 15 |
| Wider scope audit                                                  | 24 |
| Audit outputs, timetables and fees                                 | 27 |
| Appendices                                                         | 30 |

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# Introduction



## Introduction

1. This document summarises the work plan for our 2020/21 external audit of Dumfries & Galloway College (“the College”).
2. The core elements of our work include audits of:
  - the 2020/21 annual report and accounts and related matters;
  - the College’s arrangements for governance and transparency, financial management, financial sustainability and value for money;
  - the College’s participation in the National Fraud Initiative (NFI); and
  - any other work requested by Audit Scotland.
3. performance of auditors through a quality control process.
5. The Auditor General has appointed Azets as external auditor of Dumfries & Galloway College for the six year period 2016/17 to 2021/22<sup>1</sup>. This document reflects the audit plan for 2020/21 and summarises;
  - the responsibilities of Azets as the external auditor;
  - our strategy;
  - our planned audit work and how we will approach it;
  - our proposed audit outputs and timetable; and
  - background to Azets and the audit team.

## Audit appointment

3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. The Auditor General is independent and not subject to control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of the Scottish Government and most public bodies, including further education bodies in Scotland, and reporting on their financial health and performance.
4. Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out his statutory functions, including monitoring the

## Auditor independence

6. International Standards on Auditing in the UK require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we comply with the Financial Reporting Council’s (FRC) Ethical Standard. In our professional judgement, we are independent and our objectivity is not compromised in any way.
8. We set out in Appendix 2 our assessment and confirmation of independence.

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<sup>1</sup> In October 2020, the Auditor General extended our audit appointment for one year through to the audit of

the 2021/22 financial year to provide continuity and stability in the current challenging environment.

## Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the College through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the College promote improved standards of governance, better management and decision making and more effective use of resources.

## Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

## Openness and transparency

11. This report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# Respective responsibilities of the auditor and Board of Management

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## Respective responsibilities of the auditor and Board of Management

### Auditor responsibilities

#### Code of Audit Practice

12. The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and it is a condition of our appointment that we follow it.

#### Our responsibilities

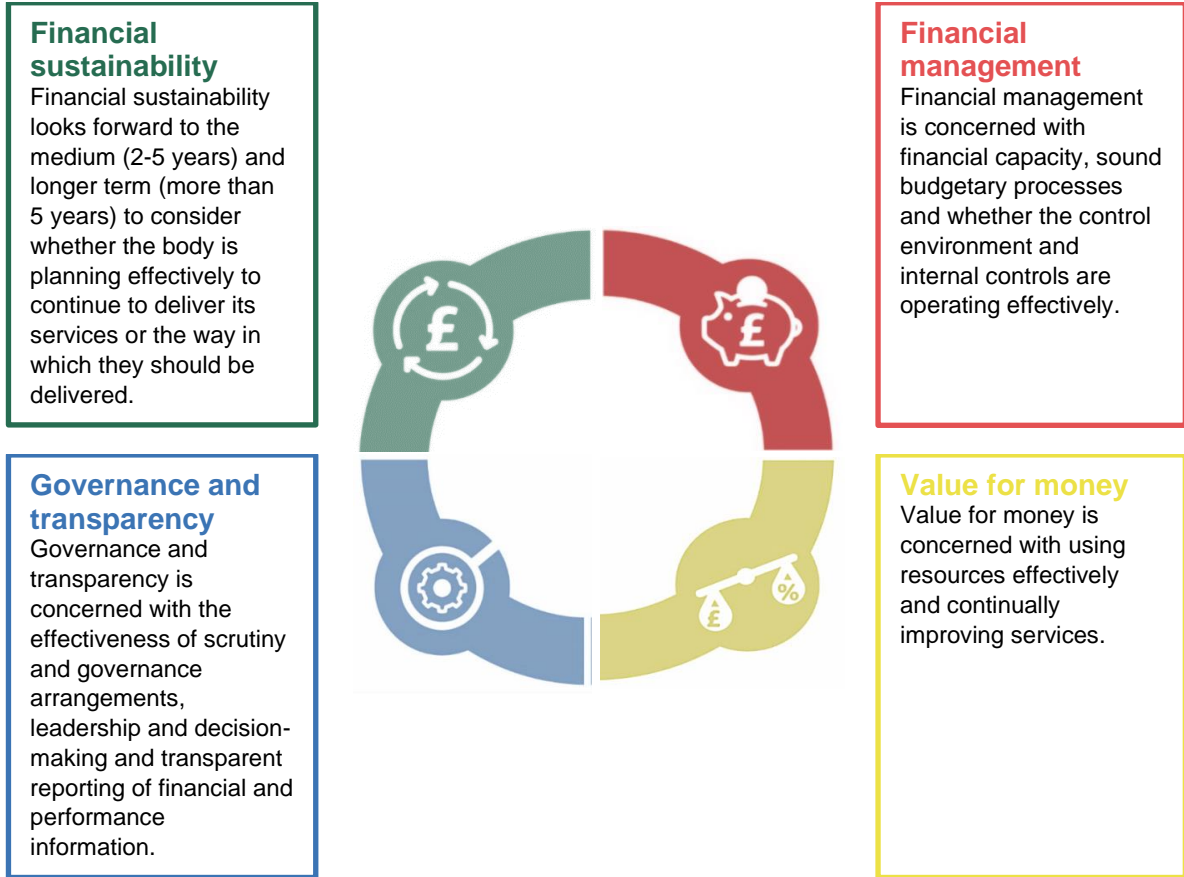
13. Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards
- provide an opinion on the financial statements and the regularity of transactions
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports
- notify the Auditor General when circumstances indicate that a statutory report may be required
- demonstrate compliance with the wider scope of public audit.

#### Wider scope audit work

14. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
15. The Code of Audit Practice sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.

**Exhibit 1: Audit dimensions within the Code of Audit Practice**



16. Where the application of the full wider scope is judged by us not to be appropriate then our annual audit work on the wider scope is restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

17. Our assessment takes into account the size, nature and risks of the organisation. Taking these factors into consideration, we have concluded that

application of the restricted wider scope is appropriate at the College.

**Board of Management’s responsibilities**

18. The Board of Management has primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. The Board of Management’s responsibilities are summarised in Exhibit 2.



## Exhibit 2: Board of Management responsibilities

| Area                                                                                                                                                                                                                                                   | Board of Management's responsibilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Financial statements:</b> Annual accounts containing financial statements and other related reports should be prepared.</p>                                                                                                                      | <p>The Board of Management has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of its financial position and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority</li> <li>• maintaining proper accounting records</li> <li>• preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements</li> </ul> |
| <p><b>Financial sustainability:</b> Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfil its functions in an affordable and sustainable manner.</p> | <p>The Board of Management is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with any statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• How the organisation plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>                                                                                                                                                                                                                                                                                                                    |

| Area                                                                                                                                                                                                                                                        | Board of Management's responsibilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Financial management:</b><br/>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>                                           | <p>The Board of Management is responsible for ensuring that financial affairs are conducted in a proper manner. Management is responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>The Board of Management is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>The Board of Management is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p> |
| <p><b>Governance and transparency:</b><br/>Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p> | <p>The Board of Management is responsible for establishing arrangements to ensure the proper conduct of their affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p> <p>The Board of Management is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <p><b>Value for money:</b> Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>                                                                                                 | <p>The Board of Management has a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

# Audit strategy

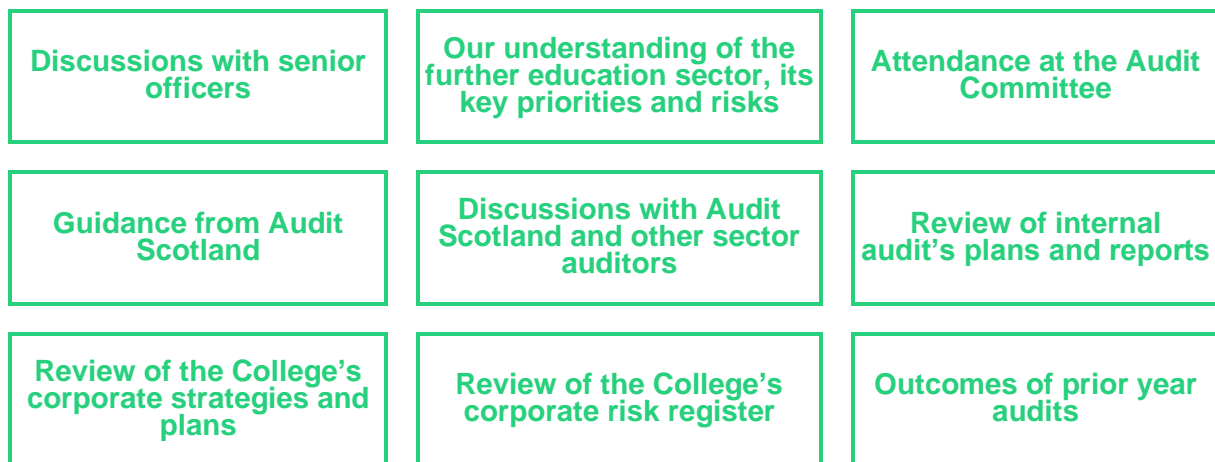


## Audit strategy

### Risk-based audit approach

19. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures

that our audit focuses on the areas of highest risk. Our audit planning is based on:



20. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise.

### Communication with those charged with governance

21. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with the College that these communications will be through the Audit Committee. The financial statements and our annual report will also be reported to the Board.

### Professional standards and guidance

22. We perform our audit of the financial statements in accordance with International Standards on Auditing (UK (ISAs (UK))), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

### Partnership working

23. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

## Audit Scotland

24. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.
25. Audit Scotland undertakes national performance audits on issues affecting the public sector. We may review the College's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We also consider the extent to which the College uses the national performance reports as a means to help improve performance at the local level.
26. During the year we may also be required to provide information to Audit Scotland to support the national performance audits or provide information to support the assessment of the impact of specified published performance audit reports.

## Internal Audit

27. We will consider the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to the College is used as efficiently and effectively as possible.

## COVID-19 – impact on our 2020/21 audit strategy

28. The COVID-19 pandemic has had, and continues to have, a significant and profound effect on every aspect of Scottish society.
29. We appreciate that organisations have been impacted differently by COVID-19, as have finance teams, and some organisations are better set up for remote working. We also know that plans can change quickly and it only takes the absence of one key member of staff from a finance team to have a big impact. Equally our own teams may also be impacted by the pandemic. The wellbeing of our clients and our staff is paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance.

### Remote working

30. As we do not know when the current restrictions will end, we are planning to carry out our 2020/21 audit remotely. As in 2019/20 we have the following arrangements in place:
  - All of our people have the equipment, technology and systems to allow them to work remotely, including secure access to all necessary data and information.
  - All of our staff are fully contactable by email, phone call and video-conferencing.
  - All meetings are now held over Skype, Microsoft Teams or by telephone.
  - We are keeping all of our staff fully up to date with the latest government guidance in order to

keep everyone as safe as possible.

31. If resourcing levels in any part of our business are compromised due to illness or inability to work, we will refocus our teams as necessary to deliver to deadlines. Our teams are holding regular catch ups to allow us to re-prioritise workloads as necessary.

### Secure sharing of information

32. We use a cloud-based file sharing service that enables users to easily and securely exchange documents.

### Audit evidence

33. Working remotely, does unfortunately result in the audit team requesting audit evidence which we would have previously obtained through other means (for example, face to face meetings or access to systems and client premises).
34. Where required, we will consider other ways in which we can obtain audit evidence or carry out alternative audit procedures.
35. We will employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

### Regular contact

36. During the 'fieldwork' phase of our audit, we will look to agree regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

### Audit reporting

37. It may be that the current circumstances lead to more modified opinions in auditor's reports, than would typically have been the case in previous years. This has included, for example, the recognition of a material uncertainty around asset valuation in response to the COVID-19 pandemic.
38. Where necessary, we will engage with the Audit Committee to explain the implications of our proposed report and consider whether there are other procedures that could be undertaken, which could mitigate any modification either fully or in part.
39. Sufficient time should be set aside by the Audit Committee to allow for comprehensive, complete and informed communication with the auditor. This will need to take account of the potential for extended communication to explain any modified audit reports, or to report any higher than expected deficiencies or misstatements, that may result from the current circumstances.
40. Audit Scotland uses a system for electronic signatures (DocuSign) that it recommends all bodies use for signing annual accounts. Annual accounts signed electronically are acceptable for laying in Parliament.
41. Electronic signatures simplify the process of signing the accounts. Accounts can be signed using any device from any location. There is no longer a need for duplicate copies to be signed, thus reducing the risk of missing a signature and all signatories have immediate access to a high quality PDF version of the accounts.
42. We again propose using DocuSign in 2020/21.

# Annual report and accounts



## Annual report and accounts

### Introduction

43. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the College's annual report and accounts.
44. The annual report and accounts comprise the financial statements, the performance report and the accountability report.
49. We will take cognisance of any relevant internal audit reviews of systems and controls.
50. Since the start of the pandemic, the risk of fraud and error has increased as the control environment and internal controls change. Potential areas of risk include:
- Public sector staff working under increased pressure leading to some internal controls being suspended or relaxed;
  - Procurement fraud or normal controls being relaxed to allow bodies to buy goods or services which are required urgently, possibly from new suppliers;
  - Weakened governance arrangements;
  - Admin and finance staff being redeployed to operational areas; and
  - Staff working remotely may pose potential security risks, e.g. when using personal devices and/or using removable devices to download data.

### Approach to audit of the financial statements

45. Our opinion on the financial statements will be based on:

#### Risk-based audit planning

46. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risks relating to each of the key systems on which the financial statements will be based.

#### An audit of key systems and internal controls

47. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements.
48. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and the College's own policies and procedures.
51. We will update the risk assessment following our evaluation of systems and controls, considering the impact the pandemic has had on the College's accounting systems and controls. This will ensure that we continue to focus attention on the areas of highest risk.
52. This work is not for the purpose of expressing an opinion on the effectiveness of internal controls. We will report to the Audit Committee significant deficiencies in internal controls that we identify during the audit. These matters will be limited to



those which we conclude are of sufficient importance to merit being reported. The scope of our work is not designed to be an extensive review of all internal controls.

#### Prevention and detection of fraud or error

53. We plan our audit in such a way as to obtain reasonable assurance of detecting material misstatements in the financial statements resulting from fraud or error.
54. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
55. We will assess the susceptibility of the College's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:
- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
  - considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.
56. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose. Material misstatements that arise due to fraud can be harder to detect than those that

arise from error as they may involve deliberate concealment or collusion.

#### Laws and regulations

57. We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact the financial statements. Our audit procedures include the following:
- Identification of the laws and regulations applicable to the College through enquiries with management, and from our knowledge and experience of the College and sector;
  - A focus on specific laws and regulations which we consider may have a direct material effect on the financial statements or the operations of the College;
  - Reviewing minutes of relevant meetings;
  - Enquiring of management and the College's legal representatives the position in relation to litigation, claims and assessments; and
  - Performing detailed testing of transactions and balances.
58. There are however inherent limitations in our audit procedures described above. The more removed that laws and regulations are from financial transactions, the less likely it is that we would become aware of non-compliance.

#### A final audit of the financial statements

59. During our final audit we will test and review the material amounts and disclosures in the financial statements. The extent of testing will be based on our risk assessment.
60. Our final audit will seek to provide reasonable assurance that the financial statements are free from



material misstatement and comply with the Statement of Recommended Practice: Accounting for Further and Higher Education (the SORP), HM Treasury Financial Reporting Manual 2020/21 (FReM) and the SFC’s Accounts Direction.

- 61. In order to provide assurance on the regularity of transactions, we also review whether, in all material respects, expenditure has been incurred and income applied in accordance with guidance issued by Scottish Ministers.

**Independent auditor’s report**

- 62. Our opinion on whether the financial statements give a true and fair view of the financial position and net expenditure and of the regularity of transactions will be set out in our independent auditor’s report which will be included in the annual report and accounts.
- 63. We also provide an opinion on the audited part of the remuneration and staff report, annual governance statement and performance report.

**Materiality**

- 64. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor’s report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout our audit.
- 65. Performance materiality is the working level of materiality used throughout the

audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or group of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

- 66. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

|                                                                                                                                                                                                                                                   | Materiality<br>£'000 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| <b>Overall materiality:</b> Our initial assessment is based on approximately 1.5% of the College’s 2019/20 expenditure, which is considered one of the principal considerations for users of the financial statements when assessing performance. | 240                  |
| .....                                                                                                                                                                                                                                             |                      |
| <b>Performance materiality:</b> using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.                                                                                          | 180                  |
| .....                                                                                                                                                                                                                                             |                      |

67. We will report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
  - Uncorrected misstatement with a value in excess of 5% of the overall materiality figure; and
  - Other misstatements below the 5% threshold that we believe warrant reporting on qualitative grounds.

#### Key audit risks in the financial statements

68. Auditing standards require that we inform the Audit Committee of our assessment of the risk of material misstatement in the financial statements. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Audit Committee if our assessment changes significantly during the audit

### Exhibit 3 – Key audit risks in the financial statements

#### Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

69. In response to this risk we will review the College's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We will adopt data analytics techniques to review and test aspects of this significant risk. We will assess whether judgements and assumptions made by management in determining accounting estimates as set out in the financial statements are indicative of potential bias.

### Revenue recognition

Under ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the College could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

70. As part of our planning process we have considered the nature of the revenue streams at the College against the risk factors set out in ISA (UK) 240. We have identified that for Scottish Funding Council (SFC) grant funding the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate revenue of this nature. We have concluded, however, the risk of fraud in relation to revenue recognition is present in all other income streams.
71. We will review and evaluate each material revenue stream, including the controls over revenue accounting. We will conduct substantive testing on all material revenue streams to confirm revenue has been recognised appropriately and in line with accounting policies.

### Risk of fraud in the recognition of expenditure

As most public sector bodies are net spending bodies, the risk of fraud is more likely to occur in expenditure. There is an increased risk that expenditure may be misstated due to improper recognition of expenditure, resulting in a material misstatement in the financial statements.

72. In response to this risk we will evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing). We will consider the College's key areas of expenditure and obtain evidence that the expenditure was recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. We will review accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

### Pension assumptions (significant accounting estimate)

An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under FRS 102 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership date held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities.

There is a risk that the assumptions used to inform this estimate are not appropriate, resulting in an increased risk of material misstatement in the financial statements.

73. We will review the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. We will review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We will agree the disclosures in the financial statements to information provided by the actuary.

### Estates valuation (significant accounting estimate)

The College holds a significant portfolio of land and buildings, with net book value of £39.542 million as at 31 July 2020. In accordance with its accounting policies, the College measures these assets at fair value through a programme of professional, with the latest independent valuation completed at 31 July 2020. Due to the specialised nature of the buildings, the carrying value of assets is based on a range of estimates, with small changes having the potential to result in a material change in asset valuation.

74. We will ensure that assets are recorded in line with the FReM, Accounts Direction and the College's accounting policies, and have been accounted for appropriately. We will review asset valuations and ensure that the College has completed a recent assessment for impairment across its estate. This will include looking to ensure there is professional advice and appropriate assurance over any impact of COVID-19.
75. Where professional advice has been sought, we will consider the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK). We will review the valuation report for 2020/21

and consider assumptions used by the valuer against external sources of evidence. In addition, we will consider the scope of the valuer's work and the information provided to the valuer for completeness.

## Other risk factors

### Impact of COVID-19 on the financial statements

76. Further to the identification of significant audit risks, we also continue to monitor the impact COVID-19 could have on the financial statements. This includes consideration of non-routine transactions and the impact on stock valuations. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. It is uncertain how long these challenges will persist.
77. We continue to monitor government and relevant announcements as they pertain to the audit and will adapt our audit approach as required.

### Key accounting estimates

78. Changes to ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures, which is applicable for accounting periods beginning on or after 15 December 2019, places increased regulatory requirements on the auditor in respect of the auditing of significant estimates at the planning and completion stages of the audit.
79. As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements.

Consideration was given to asset valuations, impairment, depreciation and amortisation rates, pension liability, provisions for doubtful debts, and accruals. Other than pension liability and asset valuation we have not determined the accounting estimates to be significant. We will however revisit our assessment during the fieldwork and completion stages of our audit.

## The performance report, accountability report and other information

80. The HM Treasury Government Financial Reporting Manual 2020/21 sets out the content required within the annual report and accounts. In response to the continuing impact of COVID-19, HM Treasury has issued an addendum to the Government Financial Reporting Manual 2020-21 which sets out the minimum reporting requirements in respect of the performance report and accountability report.
81. The addendum permits, but does not require, bodies to omit the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication.
82. Where unaudited information otherwise required to be included in

the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report.

83. In addition to presenting our opinions over the financial statements our independent auditor's report will also present our opinion on the other aspects of the annual report and accounts:

#### Other information

84. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's report thereon. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.
85. We read all the financial and non-financial information in the annual report and accounts 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 or inconsistencies we consider the implications for our independent auditor's report.

#### The performance report

86. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. Our independent auditor's report will

confirm whether in our opinion the performance report has been properly prepared and is consistent with the financial statements.

#### The accountability report

87. The accountability report is required in order to meet key parliamentary accountability requirements. It has three sections:
- A corporate governance report (including a governance statement) explaining the composition and organisation of the entity's governance structures and how they support the achievement of the entity's objectives.
  - A remuneration and staff report setting out staff numbers and costs as well as the entity's remuneration policy for directors and the remuneration awarded to directors.
  - A parliamentary accountability report disclosing the regularity of expenditure and other parliamentary accountability requirements.
88. Our independent auditor's report will confirm whether in our opinion the governance statement and the audited part of the remuneration and staff report have been properly prepared and are consistent with the financial statements.

# Wider scope audit





## Wider scope audit

### Introduction

89. As described above, the Code of Audit Practice frames a significant part of our audit responsibilities in terms of four wider scope audit dimensions. Following consideration of the size, nature and risks of the College, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope will therefore be restricted to:
- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and
  - Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.
90. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an understanding of the College which we have developed from previous years, along with discussions with management and review of committee minutes and key strategy documents.
91. The risk profile of public bodies for the 2020/21 audit is significantly affected by the COVID-19 pandemic. The pandemic has highlighted the importance of many long-standing issues facing public sector bodies such as the need for good governance, openness and transparency, and effective longer-term planning to deliver better outcomes. The risks and challenges associated with these issues have become greater due to the pandemic.
92. In 2020/21, Audit Scotland has requested that external auditors focus on risks relating to governance and transparency, financial sustainability and counter-fraud arrangements in light of COVID-19. We will consider these risk areas in the context of our wider scope audit work and include commentary in our annual audit report as appropriate.
93. At this stage, we have identified one significant risks to the wider scope of our audit (Exhibit 4). Audit planning is a continuous process and we will report any other identified significant risks, as they relate to the four dimensions, in our annual audit report.


## Exhibit 4 – Wider scope significant risks

### Financial sustainability

The College continues to face significant challenges, with ongoing effort and activity to reach a long term sustainable position. The 2020/21 Financial Forecast Return shows an underlying surplus in 2021/22 and 2022/23. However these projections are highly dependent on the phasing of the College's return from lockdown restrictions and the recovery of non-SFC income which has been significantly impacted throughout the pandemic.

Staff costs continue to be a significant pressure area for the College, although work is underway through the Transformation Plan to address this and generate savings. The Transformation Plan has been reviewed in light of the COVID-19 pandemic. Whilst it was deemed that the drivers for change and overall objectives remained valid, the impact of COVID-19 highlighted the need to accelerate the pace of change in some areas.

Work is ongoing to prepare the 2021/22 budget and update medium term financial plans, reflecting on the continued impact the COVID-19 pandemic has on service delivery and financial forecasts.

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94. During our audit we will continue to review whether the College has appropriate arrangements in place to manage its financial position and use of resources. Our work will include an assessment of progress made in developing financially sustainable plans which reflect the medium and longer timer impact of COVID-19 and that continue to support the delivery of the College's statutory functions and strategic objectives. Our conclusion will be based on a review of the College's financial performance, underlying financial position, financial and operational plans, financial reporting and performance against savings targets.

# Audit outputs, timetables and fees



## Audit outputs, timetable and fees

### Audit outputs

We have set out below target months which align to the Board of Management's 2021 schedule of Audit Committee and Board meetings. We will aim to meet these scheduled meetings however this will be monitored during the audit process and may require to be revised to reflect emerging issues as a result of the pandemic.

| Audit output                                                    | Description                                                                                                                                                                                                                                                                                              | Target month  | Deadline for submission to Audit Scotland |
|-----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-------------------------------------------|
| External audit plan                                             | This report sets out the scope of our audit for 2020/21.                                                                                                                                                                                                                                                 | May 2021      | 30 June 2021                              |
| Independent Auditor's Report                                    | This report will contain our opinion on the financial statements, the audited part of the remuneration report, annual governance statement and management commentary.                                                                                                                                    | December 2021 | 31 December 2021                          |
| Annual Report to the Board and the Auditor General for Scotland | At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice. | December 2021 | 31 December 2021                          |

95. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
96. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

### Audit fee

97. Audit Scotland sets an expected audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based

- on auditors' experience, new requirements, or significant changes to the audited body.
98. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied above the expected fee level by up to 20% to reflect the circumstances and local risks within the body.
99. For 2020/21 we propose setting the audit fee at 9.5% (£1,560) above the expected fee level. This reflects additional work performed to support the College (including attendance at the Board meeting) and the level of work we consider is required in response to the key audit risks identified, particularly the additional work required to conclude on key accounting estimates and reflect on the impact of COVID-19 on the College's operating and control environment. This approach is consistent with the uplift principles of prior periods.

|                                      | 2020/21        | 2019/20        |
|--------------------------------------|----------------|----------------|
| Auditor remuneration                 | £16,380        | £15,190        |
| Pooled costs                         | £960           | £820           |
| Contribution to Audit Scotland costs | £630           | £780           |
| <b>Total fee</b>                     | <b>£17,970</b> | <b>£16,790</b> |

100. We will take account of the risk exposure of the College and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

### Audit timetable

101. A summary timetable, including audit outputs, is set out as follows:

|               |   |                                                                   |
|---------------|---|-------------------------------------------------------------------|
| <b>APR 21</b> | ● | Planning meeting to inform the 2020/21 audit                      |
| <b>MAY 21</b> | ● | Presentation of External Audit Plan to the Audit Committee        |
| <b>OCT 21</b> | ● | Accounts presented for audit and final audit visit begins         |
| <b>NOV 21</b> | ● | Presentation of annual Report on the Audit to the Audit Committee |

# Appendices



## Appendix 1: Azets

On 7 September 2020, the CogitalGroup of companies (Scott-Moncrieff, Campbell Dallas, Baldwins and Wilkins Kennedy) came together as Azets. Whilst it is a new name, we still deliver the same personal approach to accounting, tax, audit, advisory and business services, digitally and locally.

With over 6,500 advisers and specialists across our office network, we help people and organisations of all shapes and sizes save time, work smarter and achieve their goals. Our job is to give you the support you need so you can focus on what you do best.

We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

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### David Eardley

#### Audit Director

david.eardley@azets.co.uk



David has over a decade and a half of experience and specialises in external and internal audit of public sector clients. David's primary area of focus and expertise is in the health and education sectors.

David works with a range of public sector clients including the NHS, education and central government, from £1.5billion health boards to specialist government entities. David has a wealth of technical accounting expertise, coupled with strong interpersonal skills and client relationship skills.

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### Nicola MacKenzie

#### Audit Manager

nicola.mackenzie@azets.co.uk



Nicola will manage the delivery of the onsite work and work alongside David to deliver the audit engagement. Nicola has delivered external audits to a range of public sector bodies, including central government bodies, health bodies and local authorities.

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## Appendix 2: Confirmation of independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" and the Revised Ethical Standard 2019 requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Dumfries and Galloway College has purchased non-audit services from Azets in 2020/21, with an expected fee of £4,000. We provide advisory services to the College on tax (VAT and PSA) matters. The work is undertaken by a separate team from the audit and the audit team will have no involvement in the non-audit work. In line with Audit Scotland planning guidance, approval is being obtained from the Azets ethics partner and Audit Scotland prior to commencing this non-audit work.

We confirm that we comply with FRC's Ethical Standard. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets and the College, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.



## Appendix 3: Statement of understanding

### Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of the College's Board of Management and Azets.

### Annual report and financial statements

We require the annual report and financial statements and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant College staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statements strategy in advance of our final audit visit which sets out our expectations in terms of audit deliverables. This document helps to ensure we can work together to deliver an efficient and effective audit.

### Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

### Representations

As auditors we do not act as a substitute for the College's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the College during the course of the audit on matters having a material effect on the financial statements. This will take place by means of a letter of representation, which will require to be signed by the Principal.

### Internal audit

It is the responsibility of the College to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

### Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control
- Are over £5,000

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

## Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 impose an obligation on the Auditor General to inform the National Crime Agency (NCA) if he knows or suspects that any person has engaged in money laundering or terrorist financing.

We require the Board to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

## Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants in England and Wales and the Code of Audit Practice.

## Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the

service you are receiving please let us know by contacting David Eardley. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants in England and Wales.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

## Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work.

Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

## Agreement of terms

We shall be grateful if the Audit Committee would consider and note this statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



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We are an accounting, tax, audit, advisory and business services group that delivers a personal experience both digitally and at your door.  
**Accounting | Tax | Audit | Advisory | Technology**

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