

Dundee and Angus College

Annual Audit Plan 2017/18



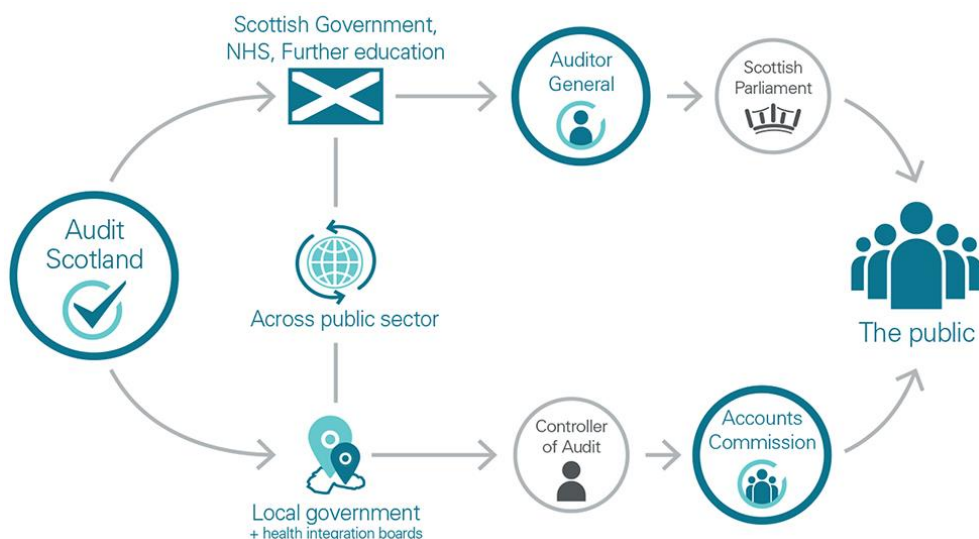
 AUDIT SCOTLAND

Prepared for Dundee and Angus College
May 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

3. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Dundee and Angus College (the College). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over income</p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams are significant.</p> <p>The College recorded income of £40million in 2016/17, of which £31million was provided by the Scottish Funding Council (SFC) and £9million was received from other sources.</p>	<p>Budget monitoring in place.</p> <p>Fraud Prevention and Whistleblowing policies and procedures in place.</p> <p>Internal audit's review of student fees and contracts income.</p>	<p>SFC grant income reconciled to the funding allocation.</p> <p>Reliance on internal audit's review of student fees and contracts.</p> <p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions, including cut-off</p>

Audit Risk	Source of assurance	Planned audit work
<p>SFC funding is reliant on accurate recording of student numbers and courses provided. In addition, the level of income received from other sources is material.</p> <p>The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>		<p>testing, focusing on the areas of greatest risk.</p>
<p>3 Risk of fraud over expenditure</p> <p>Most public sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p>	<p>Budget monitoring in place.</p> <p>Fraud Prevention and Whistleblowing policies and procedures in place.</p> <p>Established procurement processes and systems with clear delegated authority limits.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions, including cut-off testing, focusing on the areas of greatest risk.</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the following material account areas:</p> <ul style="list-style-type: none"> • non-current assets • pension liabilities • provisions <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Reliance upon competent suitably qualified professional valuers.</p> <p>Pension figures are derived from valuation calculations prepared by appointed actuaries. Officers review the actuary information to ensure data and assumptions used are reasonable.</p> <p>Any provisions will be reviewed by finance officers in consultation with the College's legal advisors.</p>	<p>Completion of 'review of the work of an expert' for the actuary and valuer.</p> <p>Review of accounting estimates and disclosures.</p> <p>Additional assurances obtained from legal and HR officers in relation to provisions.</p> <p>Focused substantive testing of non-current assets, provisions and pension liabilities including data submitted by the College to actuaries.</p>
<p>5 Group accounts</p> <p>During 2013/14 the College supported the creation of a charitable company limited by guarantee, The Dundee and Angus Foundation ("the Foundation") and transferred £8 million to the Foundation. To date, the financial accounts of the Foundation have not been recognised into the group financial statements of the College. As the Foundation has been operating for a number of years, external audit is now considering whether the basis for non-consolidation followed in previous years remains appropriate and that there is compliance with FRS 2 and the SORP.</p>	<p>The majority of trustees are independent, including the Chair. While the College has the right to nominate up to two trustees, there has only ever been one and, as far as management are aware, that has always been the case. The attendance of the College-nominated Trustee at meetings is designed to allow queries from the Trustees about any College bids to be answered there and then, rather than being referred back to the College Board and creating a delay. All parties are absolutely clear that this is purely a practical arrangement. Far from exerting any influence on decisions of the Trustees, it is understood that there is a</p>	<p>Further discussion with the College on the issue of consolidation of the Foundation.</p> <p>Technical advice from Audit Scotland in-house team to be reviewed and discussed with the College.</p> <p>Detailed coverage during the financial statements audit of the consolidation process.</p> <p>Liaise with the auditors of the Foundation.</p>

Audit Risk	Source of assurance	Planned audit work
<p>FRS 102 sets out the conditions under which a college is a parent undertaking and which should prepare consolidated financial statements. As well as direct control through voting rights, the conditions include the exercise of dominant influence.</p> <p>The statement of recommended practice (SORP) - accounting for further and higher education - states that dominant influence may arise where the objects of another entity (the Foundation) are substantially or exclusively confined to the benefit of the College.</p> <p>Under the Foundation's Articles of Association, the College has the ability to appoint and remove College Trustees to the Foundation's Board of Trustees. Currently, the College has a 20% representation on the Foundation's Board of Trustees.</p> <p>To date, the only funding awarded by the Foundation has been to the College.</p> <p>Taking the above into consideration, section 8 of the SORP would class this as "significant influence".</p> <p>There is a risk of non-compliance with the SORP and FRS 2 due to the non-consolidation of the Foundation in the College's accounts.</p>	<p>conflict of interests where College bids are being considered. While decisions are usually taken by consensus, if a decision was to be made by majority vote, the College Trustee would be asked not to participate.</p> <p>The objects are "to enhance the learning experience for students engaged in further and higher education in Dundee and Angus". Management are clear that this does not confine the benefits to Dundee and Angus College. Although grants to date have largely been made to the College, the Foundation does receive a number of bids from a range of charitable organisations and these are considered fully in order to identify whether they meet the objects.</p>	
<p>6 New procurement system</p> <p>The College is expected to implement a new procurement system in May 2018 (P2P). The new system will be used to prepare the accruals for the 2017/18 financial statements.</p> <p>As with all new systems there is a risk that there are errors in the data transfer and the initial financial information produced. As this information feeds into the accounts, there is a financial statements risk as a result.</p>	<p>Testing of new system carried out by Finance staff.</p> <p>Training on the new system to be provided to Finance staff and other users as departments are switched over.</p> <p>P2P will be rolled out gradually, thus minimising impact of any data errors. Accruals for this July year-end are not expected to be affected significantly by the introduction of P2P.</p>	<p>Review of project management methodology and of implementation plan.</p> <p>Focussed substantive testing on accruals.</p>

Audit Risk	Source of assurance	Planned audit work
<p>7 Asset tagging</p> <p>As part of its Assets and Fleet Management review, internal audit reported that improvement was required in the area of tagging of assets and in the monitoring of assets below the Fixed Assets Register de minimus level..</p> <p>There is a risk of financial loss to the College and misstatement of the financial statements if appropriate procedures are not in place.</p>	<p>An annual verification check will be carried out as part of the annual accounting cycle in order to confirm assets on the Fixed Asset Register.</p> <p>The college is compiling a new central assets register to improve procedures.</p>	<p>The financial statements audit work will include testing a sample of assets to verify the completeness of the asset register and the existence of the assets.</p>
Wider dimension risks		
<p>8 Financial management</p> <p>A balanced financial outturn position is subject to managing emerging cost pressures and delivering savings plans. The most recent budget monitoring report highlights a projected cash backed deficit of £156,000 against a budgeted surplus of £343,000 for the year. One of the main contributing factors to this variance is the substantial shortfall in tuition fees compared to budget.</p> <p>The College is required to generate an adjusted surplus of £571,000 to meet annual capital loan repayments. There is a risk that this is not achieved resulting in cash flow pressures for the College.</p>	<p>Regular and timely production of accurate management accounts reviewed by budget holders and senior management.</p>	<p>Review committee minutes and reports monitoring the financial position through the year, specifically any revisions to the Budget.</p> <p>On-going dialogue with officers regarding the projected year end position.</p> <p>Carry out detailed 'cut off' testing to confirm expenditure and income has been accounted for in the correct financial year.</p>
<p>9 Financial sustainability</p> <p>Funding to the sector has reduced significantly over the last five years, and there is now a risk of the core funding not matching the full range of the College's cost pressures.</p> <p>The College's financial strategy has identified that it requires to make £1.25million of savings over the next five years, with £1million of this coming in 2018/19. Additional income generation and non-pay savings have been factored into these projections, meaning that the savings required to remain cash positive will come from reduced</p>	<p>A five year financial strategy has been developed and agreed by members.</p>	<p>Monitor progress on achievement of financial targets.</p> <p>Ongoing assessment of the College's five year financial strategy.</p> <p>Monitor student recruitment and retention activity.</p>

Audit Risk	Source of assurance	Planned audit work
<p>staffing costs. Currently, around 65% of the College's expenditure is in relation to staff costs.</p> <p>Of the £1million of savings required in 2018/19, 75% of this is expected to come from the voluntary severance scheme run by the College.</p> <p>Failure to achieve these savings will have a significant negative impact on the cash balances of the College over the next five years.</p> <p>There is a risk that savings are not achieved as expected from the voluntary severance scheme. These staff savings are also made more complex by the national arrangements in place in respect of promoted posts.</p>		
<p>10 Cyber security</p> <p>The Scottish Government has released a 'Public Sector Action Plan' on cyber security and resilience which highlights the threats to public bodies which have to be mitigated. This applies to all public bodies in Scotland.</p> <p>The College has recently been the subject of a cyber attack. There is a risk that if the College does not have sufficient resources or systems in place to comply with this action plan, they may be vulnerable to further cyber attacks.</p>	<p>Cyber security is a risk that has been identified through the College's risk register and procedures are planned to address this.</p>	<p>Assessment of the College's cyber security arrangements against the Scottish Government Cyber Resilience Action Plan.</p>

Reporting arrangements

4. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.
5. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.
6. We will provide an independent auditor's report to the College and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Report including ISA 260 requirements	31 October 2018	27 November 2018
Independent Auditor's Report	As soon as possible following the Board meeting	N/A

Audit fee

7. The agreed audit fee for the 2017/18 audit of the College is £23,430 (2016/17: £23,190). In determining the audit fee, we have taken account of the risk exposure of the College, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 24 September 2018.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit Committee and Board of Management

9. Audited bodies have the 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.

10. The audit of the financial statements does not relieve management or the Audit Committee as those charged with governance, of their responsibilities.

Appointed auditor

11. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

13. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Dundee and Angus College and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the College will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

14. We will give an opinion on the financial statements as to:

- whether they 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 affairs of the College and its group as at 31 July 2018;
- whether they have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- whether they 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).



Materiality

15. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

16. We calculate materiality at different levels as described below. The calculated materiality values for the College are set out in [Exhibit 3](#).

Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 July 2018 based on the latest audited accounts for 2016/17.	£425,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 65% of planning materiality.	£276,000
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been based on 5% of planning materiality.	£20,000

Source: Dundee and Angus College Audited Annual Accounts 2016/17.



17. We review and report on other information published with the financial statements including the performance report, the accountability report which encompasses corporate governance; and detail of remuneration and staff. Any issue identified will be reported to the Audit Committee.

Timetable

18. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package.	24 September 2018
Latest date for final clearance meeting with the Head of Finance	31 October 2018
Agreement of audited unsigned annual accounts; Issue of Annual Audit Report including ISA 260 report to those charged with governance	27 November 2018
Independent auditor's report signed	By 31 December 2018

Internal audit

19. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Henderson Loggie.

Adequacy of Internal Audit

20. We have reviewed the internal audit service and concluded that it operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

Areas of Internal Audit reliance

21. To support our audit opinion on the financial statements we plan to place formal reliance on the following internal audit review:

- Student Fees and Contracts / Registry

22. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Workforce Planning
- Data Protection (General Data Protection Regulation)

Audit dimensions

23. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

24. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to

five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether the College can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

25. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the College has arrangements in place to ensure systems of internal control are operating effectively
- whether the College can demonstrate the effectiveness of budgetary control systems in communicating accurate and timely financial performance
- how the College has assured itself that its financial capacity and skills are appropriate
- whether the College has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

26. 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. We will review, conclude and report on:

- whether the College can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- whether there is effective scrutiny, challenge and transparency on the decision – making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

Value for money

27. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- the College can provide evidence that it is demonstrating value for money in the use of its resources.
- the College can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- the College can demonstrate that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

Independence and objectivity

28. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When

auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

29. The engagement lead for the College is Carol Hislop, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Dundee and Angus College.

Quality control

30. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

31. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

32. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Adding value

33. Through our audit work we aim to add value to the College. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the College has discharged its responsibilities and demonstrated the effectiveness of its arrangements. Where it is appropriate, we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

Dundee and Angus College

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