

Dundee and Angus College

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for Dundee and Angus College
May 2019

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 sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to Dundee and Angus College (the College) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the College promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. 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. 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

2018/19 Key audit risks

 Audit Risk	Source of management assurance	Planned audit work
Financial statements 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 to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> In view of the nature of this risk, assurances from management are not appropriate. 	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.
<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 £41million in 2017/18, of which £32million was provided by the Scottish Funding Council (SFC) and £9million was received from other sources.</p> <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>	<ul style="list-style-type: none"> Budget monitoring in place. Fraud prevention and whistleblowing policies and procedures in place. 	<ul style="list-style-type: none"> Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk.
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice expands the consideration of fraud under ISA 240 to include the risk of fraud over expenditure. This applies to the College due to the variety and extent of expenditure incurred.</p>	<ul style="list-style-type: none"> Involvement in National Fraud Initiative Budget monitoring in place. Fraud prevention and whistleblowing policies and procedures in place. Established procurement processes and systems with clear delegated authority limits 	<ul style="list-style-type: none"> Audit work on the National Fraud Initiative matches Analytical procedures on expenditure streams. Detailed testing of expenditure transactions, including cut-off testing, focusing on the areas of greatest risk.
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and</p>	<ul style="list-style-type: none"> Pension figures are derived from valuation calculations prepared by appointed actuaries. Officers review the 	<ul style="list-style-type: none"> Review appropriateness of actuarial assumptions. Confirm pension valuations in actuarial report are

 Audit Risk	Source of management assurance	Planned audit work
<p>valuation of the following material account areas:</p> <ul style="list-style-type: none"> • pension liabilities • provisions <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>actuary information to ensure data and assumptions used are reasonable.</p> <ul style="list-style-type: none"> • Any provisions will be reviewed by finance officers in consultation with the College's legal advisors. 	<p>correctly reflected within the 2018/19 accounts.</p> <ul style="list-style-type: none"> • Review of accounting estimates and disclosures. • Additional assurances obtained from legal and HR officers in relation to provisions.
<p>5 Performance report and governance statement</p> <p>As part of our 2017/18 review of the performance report and governance statement, we identified several areas for improvement to ensure disclosures complied with relevant guidance.</p> <p>There is a risk of inappropriate levels of disclosures in the report and financial statements.</p>	<ul style="list-style-type: none"> • All sections of the 2018/19 accounts will be reviewed to ensure appropriate and proportionate disclosure. • Available Good Practice guidance will be utilised. 	<ul style="list-style-type: none"> • Review of the performance report and governance statement against relevant guidance to ensure compliance.

Wider dimension issues and risks

<p>6 Financial sustainability</p> <p>The further education sector continues to face significant funding reductions alongside emerging cost pressures such as the costs of national bargaining, estate maintenance and the potential loss of EU funding.</p> <p>The College has a financial strategy covering 2019/20-2023/24. This identifies that savings of £2.75 million are required over the next five years. However, the savings required may be significantly greater should any of the College's assumptions not be realised. For example, zero growth in non-core income would reduce income and increase the requirement for savings by £3.2m by 2024. With additional income generation and non-pay savings already factored into the projections, the College is expecting much of the savings required to come from reduced head count achieved through voluntary severance.</p> <p>There is a risk that the College fails to achieve the planned savings, including voluntary severance projections, and this negatively impacts on their cash balances over the next five years.</p>	<ul style="list-style-type: none"> • Implementation of the Financial Strategy 2019 – 2024. • Periodic review and revision of Financial Strategy to ensure continued relevance. • Board and Finance and Property Committee oversight of financial reports. 	<ul style="list-style-type: none"> • Monitor progress on achievement of financial targets. • Ongoing assessment of the College's five-year financial strategy, including the assumptions used. • Monitor achievement of financial targets, including student credits targets.
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**Audit Risk****Source of management assurance****Planned audit work****7 Estates investment**

In December 2017, the Scottish Funding Council (SFC) published its college sector estates condition survey. This identified a backlog of repairs and maintenance of £360 million, £31 million was identified as very high priority work needing to be addressed within one year, and a further £77 million as high priority within two years. The SFC has allocated £27 million to the sector in 2018/19 to allow it to address those very high needs. Dundee and Angus College received £1.236 million for their high priority backlog maintenance.

The College's estimated value of backlog maintenance is £19.718 million, as determined through the campus condition survey conducted by the SFC.

The College has in place a detailed five-year estate strategy 2019/20 - 2023/24 to address backlog maintenance. However, the College acknowledges that significant capital funding will need to be obtained to progress with the necessary works.

There is a risk that the College estate requirements cannot be met through the SFC core funding. If the condition of the estate deteriorates to the extent that students cannot be attracted, there is likely to be a reduction in student numbers, which will in turn reduce the funding received by the College.

- Implementation of the Estates Strategy 2019 – 2024.
- Continued discussion with the SFC around investment in the College estates.

- Ongoing assessment of the College's five-year estates strategy.

8 National fraud initiative

The National Fraud Initiative (NFI) is a data-matching exercise led by Audit Scotland to aid the detection of fraudulent payments. NFI allows public bodies to investigate matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

Whilst trade creditor data was uploaded, the College was late in submitting its NFI payroll data. The current data matching exercise was

- All data has now been uploaded and work is ongoing to review matches. No fraud risks have been identified from the initial review of the data.

- Monitor the College's participation and progress with NFI.

	Audit Risk	Source of management assurance	Planned audit work
	<p>due to collect data from the College in October 2018. Due to staffing pressures, the College only submitted this data in early March 2019. Match investigation work will commence in due course.</p> <p>There is a risk that fraud and error may not be detected timeously.</p>		
9	<p>Plans and polices</p> <p>A number of corporate plans and policies require to be reviewed and updated, including:</p> <ul style="list-style-type: none"> standing orders board of management code of conduct ICT strategy risk management policy <p>There is a risk that these plans and polices are not relevant and appropriate to the needs of the College.</p>	<ul style="list-style-type: none"> Plans and polices will be reviewed at appropriate intervals and overseen by College Board Committees. Management consideration of internal audit recommendations. External consultancy will be utilised when necessary. 	<ul style="list-style-type: none"> Monitor progress of implementation. Consider the adequacy and appropriateness of the revised documents.

Source: Audit Scotland

Reporting arrangements

5. 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.

6. 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.

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 2018/19 Audit outputs

Audit Output	Target date	Board / Committee Date
Annual Audit Report including ISA 260 requirements	1 November 2019	26 November 2019
Signed Independent Auditor's Report	As soon as possible following the Board meeting	11 December 2019

Source: Audit Scotland

Audit fee

7. The agreed audit fee for the 2018/19 audit of the College is £23,950 (2017/18: £23,430). 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 23 September 2019.

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 and Risk 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 and Risk 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.

13. Our audit team membership has changed since the date of our initial appointment. We include full details of the current team in [appendix 1](#).

Audit scope and timing

Financial Statements

14. The annual report, which include the financial statements, will be the foundation and source for most 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 the 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.

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

- whether they give a true and fair view of the of the state of affairs of Dundee and Angus College as at 31 July 2019 and of its income and expenditure
- whether they have been properly prepared in accordance with relevant legislation and the applicable financial reporting framework
- the regularity of income and expenditure.

Other information in the annual report

16. We also review and report on other information published within the annual report including the performance report, governance statement and the remuneration and staff report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

17. We also read and consider any information in the annual report other than the financial statements and audited part of the remuneration and staff report and report any uncorrected material misstatements.

Materiality

18. 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 opinions in the independent auditor's report.

19. 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	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 1.5% of gross expenditure for the year ended 31 July 2018 based on the latest audited financial statements.	£640,000
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.	£415,000
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality (rounded).	£30,000

Source: Audit Scotland

Timetable

20. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [exhibit 4](#).

Exhibit 4

Annual report and financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual report and financial statements with complete working papers package	23 September 2019
Latest date for final clearance meeting with Head of Finance	1 November 2019
Agreement of audited unsigned annual report and financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	19 November 2019
Independent auditor's report signed	By 31 December 2019

Internal audit

21. Internal audit is provided by Henderson Loggie. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). The scope of our work assesses aspects of PSIAS compliance, but it does not equate to full EQA review of internal audit. ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

22. We concluded that overall the service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation and reporting procedures in place.

Using the work of internal audit

23. 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 to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

24. In respect of our wider dimension audit responsibilities, we plan to consider the following areas of internal audit work:

- Risk management / business continuity
- Cyber security

Audit dimensions

25. 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



Financial sustainability

26. 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 College'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, including the potential impact of the EU withdrawal.
- 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

27. 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

28. 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

29. 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.

Independence and objectivity

30. 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 robust arrangements in place 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.

31. The engagement lead for the College is Richard Smith, Senior Audit Manager. Auditing and ethical standards requires 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

32. 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.

33. 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 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

34. 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.

Appendix 1: The audit team

The core audit team consists of the following staff and will be supported at peak times with additional resources to ensure key reporting deadlines are met:

Richard Smith

Senior Audit Manager

✉ rismith@audit-scotland.gov.uk

☎ 0131 625 1948

Richard is the appointed independent auditor established under the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice and guided by the auditing profession's ethical guidance.

Richard is a Senior Audit Manager with a portfolio of audits including West Dunbartonshire Council, Tayside Pension Fund, and Dundee and Angus College.

Andrew Kerr

Senior Auditor

✉ akerr@audit-scotland.gov.uk

☎ 0131 625 1788

Andrew will have overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly planned, resourced and concluded within time.

Andrew has a range of audit experience in the public sector and has been involved in the audit of many types of public bodies including health boards, local authorities and Scottish Government executive agencies.

Dundee and Angus College

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