

Dundee and Angus College

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Dundee and Angus College
April 2020

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 of Dundee and Angus College (the College) for 2019/20 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual report and 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. We make a public report of conclusions on these matters in our annual audit report to members and the Auditor General for Scotland.

Adding value

3. We aim to add value to the College through our external audit by being constructive and forward looking, by identifying areas for improvement and 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 meetings and a review of supporting information we have identified the significant audit risks for the College. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [exhibit 1](#).

Impact of Covid-19

5. The first case of Covid-19 within the UK was reported in January 2020 and on 11 March the World Health Organisation declared the Covid-19 coronavirus outbreak a global pandemic.

6. In line with the tighter restrictions introduced to limit social interaction and non-essential work within the UK, the college closed to all students on 18 March, and to staff on 23 March.

7. The majority of our audit planning work was undertaken prior to the coronavirus outbreak and risks 1-7 in [exhibit 1](#) reflect the financial statement and wider dimension risks identified up until that point. It is already clear that the impact of Covid-19 will have a pervasive effect on all aspects of the College's operations, including the operation of financial controls and the arrangements for producing, and auditing, the 2019/20 annual report and financial statements. However, it is not possible to predict with any certainty the full extent of the impact at this stage. We will continue to discuss our audit approach, and timetable, with management during the course of the year to agree how we can work together to adapt and respond to the changing circumstances.

Exhibit 1

Significant risks for the 2019/20 audit

 Audit Risk	Source of management assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement caused by 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"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<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. Review of the Annual Governance Statement and the assurances obtained in support of the statement.
<p>2 Risk of material misstatement caused by fraud in income recognition</p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams are significant.</p> <p>The College recorded income of £44million in 2018/19, of which £35million 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"> Review of budget monitoring reports focussing on significant budget variances. Detailed testing of income transactions. Analytical procedures on income streams.
<p>3 Risk of material misstatement caused by fraud in 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 	<ul style="list-style-type: none"> Audit work on the National Fraud Initiative matches. Review of budget monitoring reports focussing on significant budget variances. Consideration of the findings from internal audit's review of procurement.

 Audit Risk	Source of management assurance	Planned audit work
	processes and systems with clear delegated authority limits <ul style="list-style-type: none"> Internal audit review of procurement. 	<ul style="list-style-type: none"> Detailed testing of expenditure transactions focusing on the areas of greatest risk Analytical procedures on expenditure streams.
<p>4 Estimation and judgments</p> <p>There is a significant degree of subjectivity in the measurement and valuation of some significant balance sheet assets/liabilities.</p> <ul style="list-style-type: none"> Valuations on non-current assets rely on expert valuations and management assumptions. A full valuation of non-current assets is due in 2019/20. The value of the college's pension liability is an estimate based on information provided by management and actuarial assumptions. <p>Risk: Valuations of assets/liabilities are materially misstated.</p>	<ul style="list-style-type: none"> Asset valuations will be completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyors and the College is in the process of appointing a valuer to undertake the 2019/20 valuation programme. Pension figures are derived from valuation calculations prepared by appointed actuaries. Officers review the actuary information to ensure data and assumptions used are reasonable. 	<ul style="list-style-type: none"> Review of the work of the valuer and actuary. Focused substantive testing of classification and valuation of assets. Review appropriateness of actuarial assumptions. Confirm pension valuations in actuarial report are correctly reflected within the 2019/20 accounts.
<p>Wider dimension risks</p>		
<p>5 Financial sustainability</p> <p>The College approved its Financial Forecast Return (FFR) for 2019/20-2023/24 projected an underlying operating deficit from 2021/22 onwards resulting in a negative cash position by 31 July 2024.</p> <p>To address this, the College's financial strategy identified savings of £2.75 million are required over the next five years. Much of the savings required were expected to come from reduced head count achieved through voluntary severance.</p> <p>The College has reported that the voluntary savings assumptions made in the Financial Strategy for 2019/20 are not expected to be realised due to lower than anticipated requests.</p> <p>Risk: There is a risk that the College fails to achieve the planned savings and this negatively impacts on their cash balances over the next five years.</p>	<ul style="list-style-type: none"> Management accounts reporting to Finance and Property Committee and Board. Financial Forecast Return reporting to SFC. 	<ul style="list-style-type: none"> Monitor achievement of financial targets, including achievement of student credit targets. Ongoing assessment of the College's financial strategy, including the assumptions used. Review of the College's Financial Forecast Return for 2020/21-2024/25.

	Audit Risk	Source of management assurance	Planned audit work
6	<p data-bbox="231 324 470 369">Estates Investment</p> <p data-bbox="231 380 678 504">In common with other Scottish colleges, Dundee and Angus College has a significant backlog of repairs and maintenance for its estate.</p> <p data-bbox="231 515 678 884">The College's estates strategy covering 2019/20 to 2023/24 sets out an estates plan to be followed during the five-year period and outlines how this will be implemented. The SFC allocated the College £1.646 million of capital maintenance funding to address its high priority works in 2019/20. However, the College has recognised it will need to secure additional funding streams if it is to implement its strategy.</p> <p data-bbox="231 896 678 1243">A business case is being developed with plans to build a new Science, Technology, Engineering and Maths (STEM) centre funded by the Scottish Government through a Mutual Investment Model (MIM). In addition, the College has planned a redevelopment of its Kingsway Tower and intends to submit a bid to the Dundee and Angus Foundation to seek financial support for this project.</p> <p data-bbox="231 1254 678 1556">Risk: Should the anticipated funding not be secured, there is a risk that it impacts on the ability of the College to address the condition of its estate and continue to deliver their core services in a safe environment. There is also a related risk that the condition of the estate impacts on the ability of the College to attract new students.</p>	<ul data-bbox="718 324 1021 481" style="list-style-type: none"> • Estates projects progress reporting to Finance and Property Committee and Board. 	<ul data-bbox="1061 324 1404 492" style="list-style-type: none"> • Ongoing assessment of the College's five-year estate strategy. • Monitor progress of funding applications.

Overarching financial statements and wider dimension risks

7	<p data-bbox="231 1646 518 1691">Impact of cyber attack</p> <p data-bbox="231 1702 678 1915">In January 2020, the College experienced a three-day cancellation of all student classes following a significant cyber-attack. This impacted on a number of College systems and resulted in certain data and records being encrypted.</p> <p data-bbox="231 1926 678 2139">Risks: There is a risk that financial information and evidence required for the financial statements audit may not be available. There is also a risk that the encryption of other key information impacts on the day-to-day operation of the College.</p>	<ul data-bbox="718 1646 1021 2116" style="list-style-type: none"> • Staff have been able to recreate some of the encrypted data from other sources. • The majority of financial systems were unaffected by the cyber-attack and alternative arrangements, and financial controls, have been put in place to enable the finance team to operate without the 	<ul data-bbox="1061 1646 1428 2116" style="list-style-type: none"> • We will review the financial controls introduced following the cyber-attack. • We will select audit samples at an early stage, wherever possible, to enable the College to obtain supporting documentation from external parties where required (e.g. copy invoices from suppliers for expenditure sample testing).
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 Audit Risk	Source of management assurance	Planned audit work
<p>Furthermore, there is a risk that the College may be vulnerable to future cyber-attacks.</p>	<p>systems that were affected.</p> <ul style="list-style-type: none"> Action is ongoing to address those areas where data can not be recreated. This includes discussions with the Scottish Funding Council around lost coursework and assessments. JISC conducted an independent review of the incident in March 2020 which included recommendations to mitigate the risk of future attacks. 	<ul style="list-style-type: none"> We will continue to monitor the ongoing implications from the cyber-attack, including the arrangements put in place by the College to prevent future attacks.
<p>8 Impact of Covid-19</p> <p>In line with the tighter restrictions introduced, in response to the Coronavirus outbreak, to limit social interaction and non-essential work within the UK, the college closed to all students on 18 March, and to staff on 23 March.</p> <p>Risks: The impact of Covid-19 will have a pervasive effect on all aspects of the College's operations and presents a wide range of risks for the 2019/20 audit.</p>	<ul style="list-style-type: none"> Business Continuity Plan and Policy. Business Continuity team established and operating to minimise the impact. 	<ul style="list-style-type: none"> We will continue to discuss our audit approach, and timetable, with management during the course of the year to agree how we can work together to adapt and respond to the changing circumstances.

Source: Audit Scotland

Reporting arrangements

8. This audit plan, the outputs set out at [exhibit 2](#), and any other outputs on matters of public interest will be published on Audit Scotland's website: www.audit-scotland.gov.uk.

9. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer(s) to confirm factual accuracy, prior to the issue and publication of final reports.

10. We will provide an independent auditor's report (i.e. audit certificate) to the College and the Auditor General for Scotland setting out our opinions on the annual accounts. We will also provide the Board of Management and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2

2019/20 Audit outputs

Audit Output	Target date	Board / Audit and Risk Committee Date
Management Letter <i>(This will only be required where reportable issues are identified during our interim testing)</i>	N/A	22 September
Annual Audit Report including ISA 260 requirements	31 December	24 November
Signed Independent Auditor's Report	31 December	15 December

Source: The target dates included are those specified in Audit Scotland's Planning Guidance 2019/20 but all audit outputs will be issued in time for inclusion in the papers for the relevant Board / Audit and Risk Committee meetings shown.

Audit fee

11. The agreed audit fee for the 2019/20 audit of the college is £24,370 (£23,950 in 2018/19). 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 annual report and financial statements, with a complete working papers package on 28 September.

12. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and financial statements or inadequate working papers, 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

13. Audited bodies are responsible 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.

14. 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

15. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and are guided by the auditing professions ethical guidance.

16. Auditors in the public sector give independent opinions on the financial statements and other information within the annual accounts.

Audit scope and timing

Financial statements

17. The annual report and 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 further education and the wider public sector. Our audit approach includes:

- understanding the business of the collegeDundee 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.

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

- whether they give a true and fair view of the state of affairs of Dundee and Angus College as at 31 July 2020 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

19. We also review and report on the performance report, governance statement and remuneration and staff report. We give an opinion on whether they have been prepared in accordance with the appropriate regulations and guidance. We also read and consider the other information within the annual report and are required to report any material inconsistencies.

Materiality

20. We apply the concept of materiality in planning and performing our audit. Materiality defines the maximum error that we are prepared to accept and still conclude that the financial statements present a true and fair view. It helps assist our planning of the audit and allows us to assess the impact of any potential audit adjustments on the financial statements.

21. We calculate materiality at different levels as described below. The calculated materiality values for Dundee and Angus College are set out in [exhibit 3](#).



Exhibit 3

Materiality levels for the 2019/20 audit

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 based on the audited accounts for the year ended 31 July 2019.	£0.695 million
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.	£0.450 million
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.	£0.035 million

Source: Audit Scotland

Timetable

22. An agreed timetable is included at [exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Committee meeting dates

Exhibit 4

Annual report and financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	28 September
Latest date for final clearance meeting with management	6 November
Agreement of audited unsigned annual report and financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	13 November
Independent auditor’s report signed	By 31 December

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 and as part of our planning process we carry out an assessment of the internal audit function at audited bodies.

24. The college’s internal audit function is provided by Henderson Loggie. Our assessment of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

Using the work of internal audit

25. As in prior years, we plan to undertake a direct substantive testing approach to the audit of the 2019/20 annual report and accounts. Therefore, we do not require to place formal reliance on the work of internal audit for the audit of the annual report and accounts. However, we will review the internal audit reports produced during the financial year and presented to the Audit and Risk Committee.

26. To support our wider dimension audit responsibilities we plan to consider internal audit reports on the following areas:

- HR / Payroll
- Procurement
- Staff Recruitment and Retention
- National Fraud Initiative
- IT Network Arrangements / IT Strategy

27. We understand that due to the impact of Covid-19, some elements of internal audit's work may have to be delayed or deferred. However, as we are undertaking a direct substantive testing approach to the audit, this will not impact directly on our proposed audit approach.

Audit dimensions

28. 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 management

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

- the effectiveness of the budgetary control system in communicating accurate and timely financial performance

- whether financial capacity and skills are adequate
- whether appropriate and effective arrangements for internal control and the prevention and detection of fraud and corruption have been established
- consideration of the effectiveness of the college's controls and policies in preventing procurement fraud.

Financial sustainability

30. We consider the appropriateness of the use of the going concern basis of accounting as part of the audit of the financial statements. We also comment on the college's financial sustainability. We will carry out work and conclude on the following in 2019/20:

- the effectiveness of financial planning
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- monitoring the arrangements put in place by the college to minimise any disruption occasioned by the UK's withdrawal from the European Union.

Governance and transparency

31. 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 assess:

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

Value for money

32. Value for money refers to using resources efficiently and effectively. 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.

Impact of Covid-19

33. Throughout the course of the audit we will consider the impact of the Covid-19 coronavirus outbreak on the College's operations and report on this within our 2019/20 Annual Audit Report.

Independence and objectivity

34. Auditors appointed by the Auditor General for Scotland must comply with the Code of Audit Practice and relevant supporting guidance. When auditing 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.

35. The appointed auditor for Dundee and Angus College is Richard Smith, 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 the College.

Quality control

36. International Standard on Quality Control (UK and Ireland) 1 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.

37. 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 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) has been engaged to carry out an annual programme of external quality reviews.

38. 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 appointed auditor or to Audit Scotland's Audit Quality and Appointments group.

Dundee and Angus College

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