Borders College

2023/24 Annual Audit Report to the Board of Management and the Auditor General for Scotland

December 2024

Table of Contents

Key messages

Financial statements audit

Audit opinion	Our independent auditor's report is unqualified in all regards.
Key audit findings	The College had good administrative processes in place to prepare the annual accounts and the supporting working papers. We obtained adequate evidence in relation to the key audit risks identified in our audit plan. The accounting policies used to prepare the financial statements are considered appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately. **Job evaluation accounting treatment** In previous years, an estimate of the accrued cost of the job evaluation exercise for middle management and support staff was accounted for as a liability in the college's accounts. The related funding from the SFC was treated as accrued income. There was therefore nil net impact on the accounts. During 2023/24, the college was notified that the administration of the funding had been transferred from SFC to Scottish Government. This meant that the funding was no longer ring-fenced and could not be accounted for as accrued income. The original SFC 2023-24 Accounts Direction also required colleges to treat the cost as a 'contingent liability', rather than an actual liability. Azets and other auditors across the sector questioned this treatment of the cost as it appeared contrary to accounting standards. As a result, the SFC prepared a revised Accounts Direction requiring the cost to continue to be recognised as a liability, but the accrued income to be derecognised. The College followed that guidance and revised its accounts accordingly.

Key audit findings	The impact of derecognising the funding for the job evaluation exercise has been to increase the deficit for the year by £1.166m. A similar impact will have been reflected in most if not all Scottish college accounts.
Audit adjustments	Two audit adjustments have been identified in respect of revising of accounting treatment for job evaluation in line with the revised Accounts Direction. One unadjusted misstatement was identified within the accounts which is individually immaterial. We also identified some minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of financial statements. Details of the unadjusted errors and disclosure and presentational adjustments are noted at Appendix 2.
Accounting systems and internal controls	We applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the College's processes and internal controls relating to the financial reporting process. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where we identify any control weaknesses, we include these in this report. We identified no significant weaknesses in accounting and internal control systems during our audit.

The wider scope of public audit

Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	**Auditor judgement** Risks exist to the achievement of operational objectives
	The College has demonstrated overall sound financial management but faces unprecedented and continuing challenges resulting from the current levels of budget pressure, inflation (particularly in relation to utilities) and related funding levels from SFC. The College reported a deficit of £1.226million. This is a significant increase on prior year due to the de-recognition of the job evaluation funding as required by the SFC Accounts Direction. Audit Scotland's 'Scotland's Colleges 2024' report noted increasing concerns around cash balances and the liquidity of the College sector. We are satisfied that the College's cash balance at 31 July 2024 represents an increase in the position compared to the previous year. However, we will continue to monitor the cash position of the College and the financial flexibility which this provides.

	Auditor judgement Significant unmitigated risks affect achievement of corporate objectives
Financial Sustainability Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services and the way in which they should be delivered.	The College has appropriate arrangements in place to prepare short and medium-term financial plans, but it continues to face significant challenges, operating within tight financial parameters and with cognisance of the national economic outlook. It has proactive measures in place to recognise, understand and scrutinise the challenges. The College submitted its Financial Forecast Return (FFR) to SFC showing adjusted operating deficits for 2023/24 to 2026/27. The College has commenced several key elements of work to identify efficiencies and make savings where possible. These initiatives include continuation of the voluntary severance scheme, a review of organisational design, curriculum review reductions and estates planning. In addition, Heriot-Watt University have notified their intention to exit the shared campus agreement in October 2026. The College is currently considering options to mitigate the loss of income from the university. The College will continue to face challenges over the next few years in achieving a balanced financial position due to increasing pressures on the sector. The College's ability to develop and maintain its core services in a sustainable manner remains at significant risk from 2024/25 and beyond, and this requires continuing careful management and oversight.

Vision, Leadership and Governance Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	**Auditor judgement** Effective and appropriate arrangements are in place Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the Board continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge. Our assessment has been informed by a review of the corporate governance arrangements in place and the information provided to the Board and Committees. We are satisfied that the College is undergoing appropriate preparations to develop the next iteration of its strategy, Strategic Ambition 2025-2030.

Use of Resources to Improve Outcomes	Auditor judgement
Use of Resources to Improve Outcomes Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.	**Auditor judgement** Risks exist to achievement of operational objectives The College has appropriate performance management processes in place that support monitoring and scrutinising performance. Overall, the College's performance has remained similar to 2022/23 but there is a risk that the scale of savings required to enable the College to achieve a financially sustainable position alongside the significant financial pressures that the College is facing may impact on its ability to deliver curriculum activity or support students and staff in future years. This presents a risk of deterioration in the College's performance and it is important that the College continues to monitor and assess its ability to offer quality provision of education.

Definition

We use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope areas. The text provides a guide to the key criteria we use in the assessment, although not all of the criteria may exist in every case.

There is a fundamental absence or failure of arrangements

There is no evidence to support necessary improvement

Substantial unmitigated risks affect achievement of corporate objectives.

Arrangements are inadequate or ineffective

Pace and depth of improvement is slow / needs to extend further

Significant unmitigated risks affect the achievement of corporate objectives

No major weaknesses in arrangements but scope for improvement exists

Pace and depth of improvement are adequate

Risks exist to the achievement of operational objectives

Effective and appropriate arrangements are in place

Pace and depth of improvement are effective

Risks to the achievement of objectives are managed

Introduction

The annual audit comprises the audit of the financial statements and other reports within the annual report and accounts, and the wider-scope audit responsibilities set out in Audit Scotland's Code of Audit Practice.

We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit & Risk Committee at the outset of our audit.

Responsibilities

The College is responsible for preparing an annual report and accounts which show a true and fair view of the results for the year and position at the year end, and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on, the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent, and our objectivity has not been compromised in any way.

We set out in Appendix 1 our assessment and confirmation of independence.

Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.

Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team or to Audit Scotland.

Openness and transparency

This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Financial statements audit

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	We conduct our audit in accordance with applicable law and International Standards on Auditing. Our findings / conclusions to inform our opinion are set out in this section of our annual report.	The annual report and accounts was considered by the Audit & Risk Committee on 3 December 2024 and approved by the Board on 12 December 2024. Our independent auditor's report is unqualified in all regards.
Going concern basis of accounting	When assessing whether the going concern basis of accounting is appropriate, the anticipated provision of services is more relevant to the assessment than the continued existence of a particular public body. We assess whether there are plans to discontinue or privatise the College's functions. Our wider scope audit work considers the financial sustainability of the College.	We reviewed the financial forecasts for 2024/25. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the provision of services will continue for at least 12 months from the signing date. Our audit opinion is therefore unqualified in this respect.
Regularity of income and expenditure	We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.	We did not identify any instances of irregular activity. In our opinion, in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and

Opinion	Basis for opinion	Conclusions
		guidance issued by the Scottish Ministers.
Opinions prescribed by the Auditor General for Scotland: • The audited part of the Remuneration and Staff Report • Performance Report • Governance Statement	We plan and perform audit procedures to gain assurance that the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement are prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers.	The annual report contains no material misstatements or inconsistencies with the financial statements. We have concluded that: • the audited parts of the Remuneration and Staff Report have been properly prepared. • the information given in the performance report is consistent with the financial statements and has been properly prepared. • the information given in the Governance Statement is consistent with the financial statements and our understanding of the organisation gained through our audit.

Opinion	Basis for opinion	Conclusions
Matters reported by exception	We are required to report on whether: • adequate accounting records have not been kept; or • the financial statements and the audited parts of the Remuneration and Staff Report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit; or • there has been a failure to achieve a prescribed financial objective.	We have no matters to report.

An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit & Risk Committee in May 2024. The plan explained that 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 (the significant risk areas). Planning is a continuous process, and our audit plan is subject to review during the course of the audit to take account of developments that arise.

In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. This includes:

- An evaluation of the College's internal control environment, including the IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including procedures outlined in this report in relation to our key audit risks.

Quality indicators

We have applied a suite of quality indicators to assess the reliability of the College's financial reporting and response to the audit.

Metric	Grading (Mature / developing / significant improvement required)	Commentary
Quality and timeliness of draft financial statements	Mature	We received the unaudited financial statements of a good standard in line with our audit timetable. Revisions were provided promptly where required.
Quality of working papers provided and adherence to timetable	Mature	We received working papers of a good standard in line with our audit timetable. Further information was provided promptly where required.
Timing and quality of key accounting judgements	Mature	We did not identify any issues with the timing and quality of key accounting judgements.
Access to finance team and other key personnel	Mature	Finance team were available throughout audit and responded quickly to queries raised by audit team.
Quality and timeliness of the • audited part of the Remuneration and Staff Report • Performance Report • Governance Statement	Mature	We did not identify any issues with quality and timeliness of the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement.

Metric	Grading (Mature / developing / significant improvement required)	Commentary
As well as the quality and timeliness of supporting working papers for those statements.		
Volume and magnitude of identified errors	Mature	We identified two adjusted misstatement and one unadjusted misstatement. This is a consistent position compared to the previous year.

Significant risk areas and key audit matters

Significant risks are defined by auditing standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. Audit procedures are designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we considered the significant risks for the audit that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team (the 'Key Audit Matters'), as detailed in the tables below.

Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures.

Our opinion on the annual report and accounts is not modified with respect to any of the risks described below.

The table below summarises each significant risk. Detail behind each risk and the work undertaken is set out on the following pages.

Risk area	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
Management override of controls	Yes	Assess design & implementation	Low	No adjustment.
Fraud in revenue recognition	Yes	Assess design & implementation	Low	One unadjusted misstatement was identified in relation to accrued income which should have been released in year.
Fraud in non-pay expenditure recognition	Yes	Assess design & implementation	Low	No adjustment.
Valuation of land and buildings	No	Assess design & implementation	High	No adjustment.
Pension asset / liability	No	Assess design & implementation	High	No adjustment.
Provision for Netherdale Lifecycle Costs	No	Assess design & implementation	High	No adjustment.

Significant risks at the financial statement level

These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Risk area	Management override of controls
Significant risk description	Management of any entity is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk will vary from entity to entity, this risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk on all audits. This was considered to be a significant risk and Key Audit Matter for the audit. **Inherent risk of material misstatement:** Very High
How the scope of our audit responded to the significant risk	**Key judgement** There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions. **Audit procedures** • Documented our understanding of the journals posting process and evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determined criteria for selecting high risk and / or unusual journals. • Tested high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness, corroboration and ensured approval has been undertaken in line with the College's journals policy. • Gained an understanding of the accounting estimates and critical judgements made by management. We

Risk area	Management override of controls
	challenged key assumptions and considered the reasonableness and indicators of management bias which could result in material misstatement due to fraud. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Key observations	We did not identify any indication of management override of controls. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Key risk area	Fraud in revenue recognition
Significant risk description	Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed, inherent risk on every audit unless it can be rebutted. The presumption is that the College could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position. In respect of Scottish Funding Council (SFC) grant funding, however, we did not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate revenue of this nature. The risk of fraud in relation to revenue recognition was however present in all other income streams. This was considered to be a significant risk and Key Audit Matter for the audit. **Inherent risk of material misstatement:** Revenue (occurrence and accuracy): High Receivables (existence): High

Key risk area	Fraud in revenue recognition
How the scope of our audit responded to the significant risk	**Key judgements** Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. **Audit procedures** • Documented our understanding of College's systems for income to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements. • Evaluated the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems. • Obtained evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Substantively tested material income streams using analytical procedures and sample testing of transactions recognised for the year.
Key observations	We identified no significant issues in testing income and receivables. We gained reasonable assurance over the occurrence of income and existence of receivables recorded in the accounts and are satisfied that income is fairly stated. We identified no indication of fraud in revenue recognition.

Key risk area	Fraud in non-pay expenditure recognition
Significant risk description	As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. This was considered to be a significant risk and Key Audit Matter for the audit. **Inherent risk of material misstatement:** Non-pay expenditure (completeness): High Accruals (completeness): High
How the scope of our audit responded to the significant risk	**Key judgements** Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals and expenditure around the year end. **Audit procedures** • Documented our understanding of the College's systems for expenditure to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements. • Evaluated the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems. • Obtained evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Substantively tested material expenditure streams using analytical procedures and sample testing of transactions during the year. • Reviewed accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Key risk area	**Fraud in non-pay expenditure recognition**
Key observations	We identified no significant issues in testing expenditure and payables. We gained reasonable assurance on the completeness of expenditure and payables and we are satisfied that expenditure is fairly stated in the financial statements.

Key risk area	Valuation of land and buildings (key accounting estimate)
Significant risk description	The College held land and buildings with a net book value of £30.1 million at 31 July 2023, with full external valuations last undertaken as at 31 July 2022 and an external desktop valuation undertaken as at 31 July 2023. There is a significant degree of subjectivity in the measurement and valuation of land and buildings. This subjectivity and the material nature of the College's asset base represents an increased risk of misstatement in the financial statements.
How the scope of our audit responded to the significant risk	**Key judgements** Colleges are required to ensure fixed assets are held at a carrying amount that does not differ materially from the current value at 31 July, alongside appropriate additional disclosures. **Audit procedures** • Evaluated management processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Considered the basis on which the valuation was completed and challenged the key assumptions applied. • Tested the information used by the valuer to ensure it is complete and consistent with our understanding. If there had been any specific changes to the assets in the year, we ensured these have been communicated to the valuer. • For unusual or unexpected valuation movements, tested the information used by the valuer to ensure it is complete and consistent with our understanding. • Ensured revaluations made during the year had been input correctly to the fixed asset register and the

Key risk area	Valuation of land and buildings (key accounting estimate)
	accounting treatment within the financial statements is correct.
Key observations	The College instructed their external valuers (Ryden) to carry out a desktop valuation of its estate as at 31 July 2024. We have gained assurance that the carrying value of the College's estate in the financial statements is in line with the reports received from Ryden. We evaluated the competence, objectivity and capability of management's expert in line with the requirements of ISA (UK) 500 and concluded that use of the expert was appropriate. We confirmed that the basis of valuation for assets is appropriate based on the usage and reviewed the reasonableness of valuation assumptions applied. Overall, the valuation movements were in line with supporting evidence. We reviewed the key estimates and judgements that management made in respect to the valuation of land and buildings for any indication of bias and assessed whether the judgements used by management are reasonable. We concluded that estimates and judgements are balanced. Our audit work has not identified any issues in respect of the valuation of land and buildings as at 31 July 2024.

Key risk area	Pension asset / liability (key accounting estimate)
Significant risk description	An actuarial estimate of the pension fund asset/liability is calculated on an annual basis 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 data 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. A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation, and mortality rates) can have a material impact on the pension asset/liability. There is a risk that the assumptions used are not appropriate. **Inherent risk of material misstatement:** Pensions (valuation): High
How the scope of our audit responded to the significant risk	**Key judgements** A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability. **Audit procedures** • Reviewed the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. • Reviewed the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. • Agreed the disclosures in the financial statements to information provided by the actuary. • Considered the competence, capability, and objectiveness of the management expert in line with ISA (UK) 500 Audit Evidence.

Key risk area	**Pension asset / liability (key accounting estimate)**
	• Evaluated whether any asset ceiling was appropriately considered when determining the value of any pension asset included in the financial statements.
Key observations	We are satisfied that we have obtained reasonable assurance over the disclosures in the financial statements relating to the reported financial position. Accounting standards require the College to review the pension surplus and only recognise the lower of the surplus or an ‘asset ceiling’. The pension asset ceiling for this year capped the asset value to nil. We reviewed the reasonableness of those assumptions used in the calculation against other college actuaries and other observable data, with no issues identified. In addition, we reviewed the information in the actuarial report for completeness and accuracy against data sources including pension fund data. We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 - Audit Evidence. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.

Key risk area	**Provision for Netherdale Lifecycle Costs (key accounting estimate)**
Significant risk description	During 2006/07 the College acquired the Scottish Borders (Netherdale) Campus and entered into a leasing arrangement with Heriot-Watt University whereby the University leases part of the site. Under the contracted terms, the College has an on-going obligation to maintain the site to a specified standard and has recognised a provision for the estimated lifecycle costs. The value of the estimated provision is informed by an assessment from an independent Quantity Surveyor on a rolling programme with the latest review completed in 2018/19. Due to its specialist nature, the value of the provision is based on a range of estimates, with any small changes having the potential to result in a material change in the underlying obligation. **Inherent risk of material misstatement:** Netherdale Provision (valuation): High
How the scope of our audit responded to the significant risk	**Key judgements** There is a high level of estimation required in determining the value of the College's obligation to maintain the Netherdale campus. **Audit procedures** • Considered if there has been a material change in circumstances since the last assessment was performed to ensure the current provision remains an accurate reflection of the College's obligation as at 31 July 2024. • Reviewed the method and underlying assumptions used to carry out the valuation to ensure these are appropriate.
Key observations	We are satisfied that the amount recognised as a provision as at 31 July 2024 appropriately reflects the expected level of required lifecycle costs. Maintenance spend is monitored by the Campus Management Committee and there has been no indication of significant changes in the

Key risk area	Provision for Netherdale Lifecycle Costs (key accounting estimate)
	campus and related shared arrangements since the last independent Quantity Surveyor assessment in 2018/19.

Materiality

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 and is affected by our assessment of the risk profile of the College and the needs of users. We reviewed our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Our initial assessment of materiality for the College's financial statements was £325,000. On receipt of the 2023/24 unaudited annual accounts, we reassessed materiality and updated this to £312,000. We consider that our updated assessment has remained appropriate throughout our audit.

	College **£**
Overall materiality for the financial statements	312,000
Performance materiality (75% of materiality)	234,000
Trivial threshold	15,600

Materiality	Our assessment is made with reference to the College's gross expenditure. We consider this to be the principal consideration for users of the annual accounts when assessing financial performance. Our assessment of materiality equates to approximately 2% of gross expenditure as disclosed in the 2023/24 unaudited annual report and accounts. In performing our audit, we apply a lower level of materiality to the audit of the Remuneration & Staff Report and Related Parties disclosures. For the Remuneration & Staff Report we consider any errors which result in a movement between the relevant bandings on the disclosure table to be material. For Related Party transactions, in line with the standards, we consider the significance of the transaction with regard to both the College and the Counter party, the smaller of which drives materiality considerations on a transaction by transaction basis.

Performance materiality	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 groups 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. 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.
Trivial misstatements	Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Audit differences

Audit differences, both adjusted and unadjusted, we identified during the audit are detailed in Appendix 2.

We also identified disclosure and presentational adjustments during our audit, which have been reflected in the final set of financial statements and are disclosed in Appendix 2.

Internal controls

As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these at Appendix 3. These matters are limited to those which we have concluded are of sufficient importance to merit being reported. We did not identify any significant control weaknesses during our audit.

Follow up of prior year recommendations

We followed up on progress in implementing actions raised in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 3.

Other communications

Other areas of focus

Area of focus	Audit findings and conclusion
Significant matters on which there was disagreement with management	There were no significant matters on which there was disagreement with management.
Significant management judgements which required additional audit work and / or where there was disagreement over the judgement and / or where the judgement is significant enough that we are required to report it to those charged with governance before they consider their approval of the accounts	We identified one significant judgment made by management that requires to be highlighted. We liaised with management and Audit Scotland on this throughout the audit. The judgement is relevant to the College sector across Scotland. **Job evaluation provision** In previous years, an estimate of the accrued cost of the job evaluation exercise for middle management and support staff was accounted for as a liability in the college's accounts. The related funding was top-sliced from the Scottish Government allocation to the sector and retained by SFC on behalf of colleges. Each college treated the cost as accrued expenditure and the funding as accrued income - effectively with nil net impact on their accounts. During 2023-24, the College was notified that administration of the funding had been transferred from SFC to Scottish Government. This meant that the funding was no longer ring-fenced and could not be accounted for as accrued income. The original SFC 2023-24 Accounts Direction also required colleges to treat the cost as a 'contingent liability'. Contingent liabilities are not accounted for as actual liabilities as they are considered too uncertain. This would remove both the cost and the related funding from each college's accounts, still with a nil net impact. During the audit, we liaised with Audit Scotland and other college auditors to assess this treatment. There was common agreement amongst the auditors that there was insufficient evidence that the accrued cost of the job evaluation exercise was so uncertain that it should no longer be considered a liability. The guidance

Area of focus	Audit findings and conclusion
	and rationale within the Accounts Direction were also contradictory and unclear. The matter was raised by the SFC with Scottish Government to seek further clarification on the treatment and classification of the job evaluation cost and related income. Following this, the SFC revised its original Accounts Direction, requiring colleges to: • continue to recognise the liability, as a provision; • derecognise any related accrued income; • potentially process these changes as prior year adjustments [this implied there was a material error in the prior year accounts as the change in administration of the funding from SFC to SG occurred during 2022/23 and should therefore have been reflected in the 2022/23 accounts]; and • include the reversal of income as a reconciling item in the Adjusted Operating Profit table in the Performance Report. The College has updated the accounts to recognise the liability as a provision, derecognise the accrued income and include the impact in the Adjusted Operating Position disclosure. The impact of derecognising the accrued income has been to increase the deficit for the year by £1.166m. The College has not processed these changes as prior year adjustments as the College has interpreted the guidance in the Accounts Direction to apply only where the college was aware of the change in administration of the funding prior to approving the 2022/23 accounts. The College was not notified of this change until March 2024 and has therefore taken the view that there was no material error in the 2022/23 accounts and a prior year adjustment is therefore not appropriate. We concur with this view and it is consistent with auditor guidance issued last week by Audit Scotland.
Prior year adjustments identified	There were no prior year adjustments identified.

Area of focus	Audit findings and conclusion
Concerns identified in the following: • Consultation by management with other accountants on accounting or auditing matters • Matters significant to the oversight of the financial reporting process • Adjustments / transactions identified as having been made to meet an agreed system position / target	No concerns were identified in relation to these areas.

Accounting policies

We reviewed the adequacy of disclosures in the financial statements and considered the appropriateness of the accounting policies adopted by the College.

The accounting policies, which are unchanged from the previous year, are disclosed in the financial statements, are in line with the FE SORP and are considered appropriate.

There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

Key judgements and estimates

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 and accruals. Other than the pension liability, asset valuation and the Netherdale provision we have not determined the other accounting estimates to be significant. See the section above on “Significant risks at the assertion level for classes of transaction, account balances and disclosures” for detailed findings in relation to key accounting estimates.

We reviewed the key estimates and judgements that management made in respect to the identified key accounting estimates for indication of bias and assessed whether the judgements used by management are reasonable. Overall, we concluded that those key accounting estimates were balanced and appropriate.

Fraud and suspected fraud

We have previously discussed the risk of fraud with management and the Audit & Risk Committee. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

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.

Non-compliance with laws and regulations

As part of our standard audit testing, we have reviewed the laws and regulations impacting the College. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations.

Written representations

We issued the final letter of representation for the Board to sign at the same time as the financial statements are approved.

Related parties

We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

All requested third party confirmations have been received.

The wider scope of public audit

Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	**Auditor judgement** Risks exist to the achievement of operational objectives
	The College has demonstrated overall sound financial management but faces unprecedented and continuing challenges resulting from the current levels of budget pressure, inflation (particularly in relation to utilities) and related funding levels from SFC. The College reported a deficit of £1.226million. This is a significant increase on prior year due to the de-recognition of the job evaluation funding as required by the SFC Accounts Direction. Audit Scotland’s ‘Scotland’s Colleges 2024’ report noted increasing concerns around cash balances and the liquidity of the College sector. We are satisfied that the College’s cash balance at 31 July 2024 represents an increase in the position compared to the previous year. However, we will continue to monitor the cash position of the College and the financial flexibility which this provides.

	Auditor judgement Significant unmitigated risks affect achievement of corporate objectives
Financial Sustainability Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services and the way in which they should be delivered.	The College has appropriate arrangements in place to prepare short and medium-term financial plans, but it continues to face significant challenges, operating within tight financial parameters and with cognisance of the national economic outlook. It has proactive measures in place to recognise, understand and scrutinise the challenges. The College submitted its Financial Forecast Return (FFR) to SFC showing adjusted operating deficits for 2023/24 to 2026/27. The College has commenced several key elements of work to identify efficiencies and make savings where possible. These initiatives include continuation of the voluntary severance scheme, a review of organisational design, curriculum review reductions and estates planning. In addition, Heriot-Watt university will have notified their intention to exit the shared campus agreement in October 2026. The College is currently considering the options to mitigate the loss of income from Heriot-Wat university. The College has recognised the challenge and impact on its financial sustainability resulting from the end of its arrangement with Heriot Watt university and as a result, the College is currently working through options to mitigate this risk. The College will continue to face challenges over the next few years in achieving a balanced financial position due to pressures on the College sector. The College's ability to develop and maintain its core services in a sustainable manner remains at significant risk from 2024/25 and beyond, and this requires continuing careful management and oversight.

Vision, Leadership and Governance Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	**Auditor judgement** Effective and appropriate arrangements are in place Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the College continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge. Our assessment has been informed by a review of the corporate governance arrangements in place and the information provided to the Board and Committees. The College is currently undertaking work to prepare for the next iteration of the Strategic Ambition (Strategic Ambition 2025-2030). At the time of writing, we are satisfied that the College is undergoing appropriate preparations to develop the next iteration of its strategy, Strategic Ambition 2025-2030.

Use of Resources to Improve Outcomes Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.	**Auditor judgement** Risks exist to the achievement of operational objectives The College has appropriate performance management processes in place that support monitoring and scrutinising performance. Overall, the College's performance has remained similar to 2022/23 but there is a risk that the scale of savings required to enable the College to achieve a financially sustainable position alongside the significant financial pressures that the College is facing may impact on its ability to deliver curriculum activity or support students and staff in future years. This presents a risk of deterioration in the College's performance and it is important that the College continues to monitor and assess its ability to offer quality provision of education.

Financial management

Financial performance 2023/24

The College reported a deficit before other gains and losses of £1.226million for the year ended 31 July 2024, equating to approximately 9% of the College's total income. This is approximately twice the operating deficit recognised last year of £0.683 million and reflects de-recognising of funding in relation to the job evaluation cost in the year. This derecognition was caused by the SFC Accounts Direction revision which required the cost to continue to be recognised as a provision, but not any related income or funding. In previous years income was recognised on the basis that the SFC kept separate reserves specifically for that purpose. During 2022/23 the administration of these reserves was transferred to the Scottish Government which does not maintain earmarked reserves for that purpose. The Colleges in Scotland were informed that the Scottish Government is committed to fund these costs once the job evaluation process concludes.

Adjusting for non-cash transactions per SFC directions, such as depreciation (£0.344million), the net charge arising from the pension valuation (£0.033million), job evaluation costs not matched by revenue (£1.166million) and revenue funding allocated to loan payments (£0.252million), the College shows an "adjusted" operating surplus of £0.065million (2022/23: deficit of £0.050million).

The College set an ambitious savings target of £0.179million for 2023/24. This was delivered in full, a notable achievement in a year where the College faced such financial uncertainty.

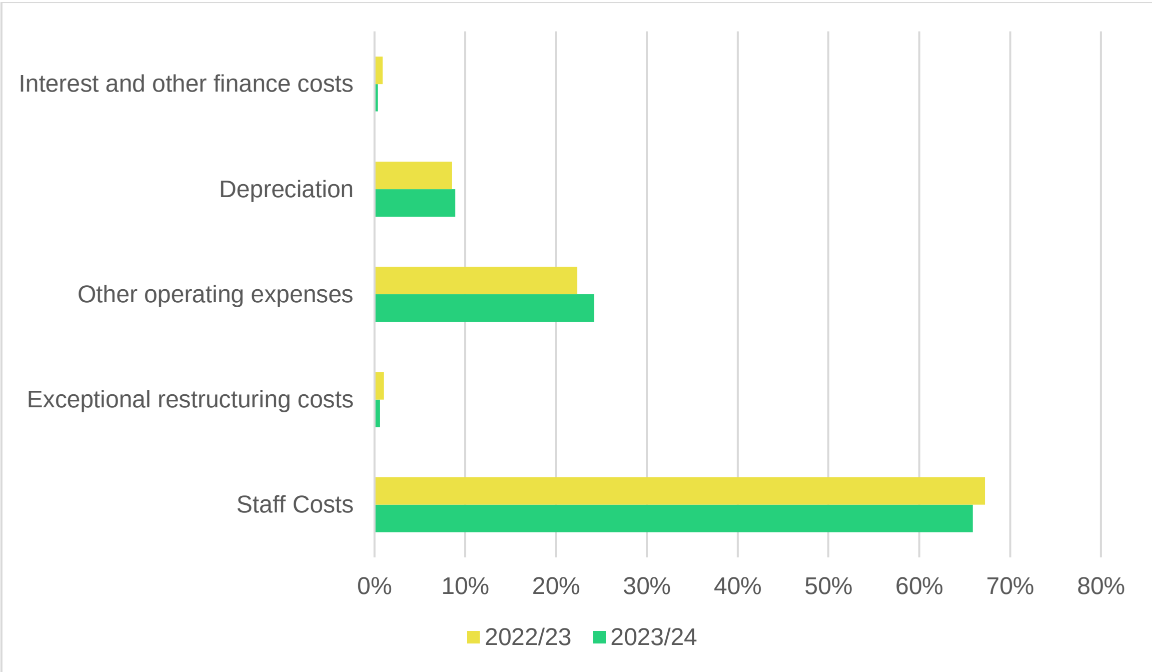
The College's main source of income continues to be grant funding from the SFC (71% of total income in 2023/24). This position is consistent with the previous year due to there being no increase in the College's credit target and therefore associated funding, despite an increase in demand to study at the College.

As detailed in exhibit 1, staff costs continue to be the highest area of spend for the College accounting for 66% (67% in 2022/23) of total expenditure. Compared to the previous year, staff costs have decreased by 6% which is primarily due to less uptake from severance schemes, difficulties with filling vacancies during the year and reduced Local Government Pension Scheme (LGPS) contributions.

The cost of voluntary severance in the year was lower than last year at £0.076million (£0.176million 2022/23) and 5 members of staff took advantage of the scheme in 23/24. This represented around 2.5% of total headcount. The College's voluntary severance programme is expected to continue into future years as a key way to achieve savings in expenditure. Further detail is included in the financial sustainability section of this report. This includes information on key mechanisms that the College will put in place to achieve savings on staff costs.

A key area of financial uncertainty to the College was the impact of ongoing pay negotiations. At the time of writing, 2022/23 and 2023/24 pay awards have now been agreed. The support staff pay award was agreed in June 2024 and teaching unions agreed a revised pay offer in September 2024.

Exhibit 1 – Key Expenditure items, two year comparison



Source: Annual Accounts 23/24 and subsequent analysis

Cash position

The College is required to manage its cash position in line with requirement of maintaining a break-even position and having cash for working capital purposes.

Operating cash – excluding the Lifecycle Maintenance Fund – held by the College was £1.734million at year end (representing 38 cash days.). This represents a slight increase from the cash position at 31 July 2023 of £1.600million and 34 cash days.

A cash days target is useful to ensure that funds are optimised and not drawn down in advance of need. The College has set a cash days target which was first reported and monitored by the Board in October 2023.

Audit Scotland's 'Scotland's Colleges 2024' report noted increasing concerns around cash balances and the liquidity of the College sector. We are satisfied that the College's cash balance at 31 July 2024 is an increase in the position compared to the previous year. However, we will continue to monitor the cash position of the College and the financial flexibility which this allows the College to have in periods of significant financial challenge.

Systems of internal control

We have evaluated the College's key financial systems and internal financial controls to ensure internal controls are operating effectively to safeguard public assets.

We did not identify any significant weaknesses in the College's accounting and internal control systems during our audit.

Prevention and detection of fraud and irregularity

Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found various elements of the College's arrangements for the prevention and detection of fraud and other irregularities to be appropriate.

Regular updates on fraud related matters (including Counter Fraud Services updates and the National Fraud Initiative) are presented to the Audit & Risk Committee.

National fraud initiative

The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.

The most recent NFI is currently ongoing where participating bodies are due to submit datasets for matching in October 2024 and November 2024 and will receive matches for investigation in December 2024 and January 2025. We are satisfied that the College is on track to meet the deadline for submitting datasets for matching.

Financial sustainability

Significant audit risk

Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities:

Financial sustainability (extract from 2023/24 External Audit Plan)
The College continues to face significant financial challenges, operating within tight financial parameters, and activity continues to plan the measures required to ensure the College is in a long term sustainable position. *The College submitted its FFR which forecasted an adjusted operating surplus in 2023/24 and adjusted operating deficits for 2024/25 and 2025/26. The College has commenced several key elements of work to look at the effectiveness and efficiencies of the services to identify areas of further savings over the short and medium term. These include a review of Student Support Services, all support role functions and a full review of the College's current estate.* *The College will continue to face challenges over the next few years in achieving a balanced financial position due to pressures on the College sector including the projected "flat cash" SFC funding positions and the unsettled 2022/23 and 2023/24 pay awards. The College's ability to develop and maintain its core services in a sustainable manner remains a significant risk which requires continuing careful management and oversight.*
Our detailed findings on College's financial framework for achieving long term financial sustainability are set out below.

2024/25 Financial Plan

The Board approved the 2024/25 budget in June 2024, in line with agreed timescales.

Due to the significant financial pressures facing the College sector including pay and non-pay inflationary pressures and flat cash funding, the College has prepared several scenarios as part of the 2024/2025 budget setting process. The financial scenarios considered were optimistic, realistic and pessimistic. This includes consideration of core and non-core SFC funding, loss of Heriot-Watt income, estate changes and increasing staffing costs. The assumptions within the realistic scenario were applied to the budget approved by the board.

The 2024/25 budget projects an operating deficit of £0.330million. Adjusting for non-cash items such as notional interest and depreciation gives a forecast adjusted operating deficit of £0.365million.

The SFC published final colleges funding allocations in May 2024.The 2024/25 SFC main grant allocation for the College is £9.645million based on flat cash. In 2023/24 the SFC funding allocations saw a 10% reduction in education delivery. This translated into the same reduction for the College's credit target for 2023/24. In 2024/25, the College credit targets set by the SFC has remained at the same level. This allows for a period of stability in this sector. The College's credit target for 2024/25 therefore remains at 23,891. Budgeted income of £15.232million is therefore, fairly consistent with 2023/24 actual income.

Budgeted expenditure of £15.562million is broadly in line with the 2023/24 actual expenditure. Increases in staff costs have been offset by savings elsewhere across the budget.

Staff Costs

Staff costs continue to be a significant challenge for the College and the 2023-24 to 2026-27 FFR has been prepared based on reduction in staffing numbers in 2024/25, as detailed in exhibit 2. This represents around 1.5% of 2023/24 total headcount. There is no impact on the curriculum from the removal of these posts.

Exhibit 2: 2024/25 Annual Staffing Efficiencies

	2024/25 FTE
FTE Staff reduction- vacancy management	0.5
FTE Staff reduction- voluntary severance	1.6
FTE Staff reduction- compulsory redundancy	0
Total Staff reduction	**2.1**

Source: 2023-24 to 2026-27 FFR – June 2024

As detailed above, the College's voluntary severance programme is expected to continue into 2024/25 as a key way to achieve savings in staff costs for future years.

The College has acknowledged that current staffing costs are not sustainable and are also actively looking to reduce staff costs through making processes more efficient. In January 2025, the College is expected to present its agreed approach to organisational redesign including how processes that can become more efficient. The College is also undertaking work to review its current curriculum offering to identify whether it remains fit for purpose and affordable. The College is currently undertaking early engagement with SFC and discussions with the Board. A decision on this is expected to be made in November 2024. This work represents an external risk to the College's financial sustainability if the expected benefits identified are not realised.

Capital Expenditure

The College has received a 2024/25 allocation of £0.404million for backlog and lifecycle maintenance. This represents a reduction of 2.2% from the 2023/24 allocation.

The capital budget setting process for 2024/25 commenced in November 2023 with all departments of the college invited to submit outline ideas and bids to the Executive team. The submitted business cases were required to demonstrate how the proposal met the strategic objectives of the College and was required to include any revenue consequences including savings and additional costs. All revenue consequences of the final capital programme have been integrated into the 2024/25 budget.

Exhibit 3 details the recommended capital allocation for the next 3 years based on the assumption that capital allocation from the SFC will remain flat over the period. The budget also assumes the College will be successful with a grant application from Borders Further Education Fund (BFET) of £0.165million to assist with the network refresh project.

Exhibit 3: 2024/25 Capital Budget

	2024/25 £'000	2025/26 £'000	2026/27 £'000
Life cycle and maintenance of assets	177	177	80
Mini buses	90	45	45
Network Refresh	202	121	315
Finance System Upgrades	46	79	-
Total Capital Plan	**515**	**422**	**440**

	2024/25 £'000	2025/26 £'000	2026/27 £'000
Potential funding from BFET	(111)	(18)	(36)
Funding from SFC	(404)	(404)	(404)
Total Capital Funding	**(515)**	**(422)**	**(440)**

Source: 2024/25 Draft Budget and Financial forecast Return – June 2024

Medium Term Financial Planning

The College has prepared a medium term financial forecast as part of the SFC's FFR process. The SFC published guidance in May 2024 and the FFR was approved by the Board in June 2024.

The SFC has developed a set of common, indicative assumptions for Colleges to use in the aim of achieving consistency and comparability across the sector. The SFC continues to take into account the results from the Scottish Government's Spending Review and the subsequent impact on grant funding, pay costs and inflation when setting the FFR assumptions.

Assumptions include:

- SFC core grant funding and related credit targets remain unchanged from those set out in the 2024/25 final funding announcement.
- Student support funding requirements will be met fully.
- SFC capital maintenance funding should be based on the final 2024/25 funding allocations.
- Staff costs will reflect: agreed cost of living increases, public sector pay policy and any known or expected increases in employer pension contribution rates.
- Funding will not be provided for voluntary severance schemes.

We confirm that the College has applied these assumptions when preparing the FFR.

The FFR anticipates operating and adjusted operating deficit positions for the years 2024/25 to 2026/27. This is shown below in exhibit 4.

Exhibit 4- Adjusted Operating Position 2024/25-2026/27

	2024/25 £'000	2025/26 £'000	2026/27 £'000
Total income	15,232	14,983	13,824
Total expenditure	15,562	15,840	15,566
Operating surplus / (deficit)	**(330)**	**(857)**	**(1,742)**
Adjusted operating surplus / (deficit)	**(365)**	**(811)**	**(1,443)**

Source: Financial Forecast Return 2024/25 to 2026/27

As previously mentioned, the College is undertaking several key elements of work to look at efficiencies that can be identified in their processes to identify further savings. Initiatives include continuation of the voluntary severance scheme, a review of organisational design, curriculum review and estates planning.

It is important that the College closely monitors the identification and delivery of savings to ensure that achievement of savings either does not impact on the College's ability to delivery curriculum activity or support students and staff in future years, or that any such impact is overtly considered and reflected in scrutiny and governance discussions as the College seeks to balance competing demands and pressures.

Key risks and uncertainties facing the College

The further education sector has received a 'flat cash' settlement from the Scottish Government for 2024/25 which equates to a reduction in real terms. The Scottish Government's 2024/25 Budget set a college revenue budget of £643 million. Excluding the £26 million of transition funding that was initially part of the 2023/24 budget, this represents a decrease of £32.7m (-4.8%) from 2023/24.

As a result, Scotland's further education sector faces an extremely challenging financial future given (i) general and wage inflation costs are unfunded, (ii) making changes and refining delivery models brings resource implications related to planning and managing the change, and may have consequences in how the College is positioned for future success and able to meet the needs of the stakeholders it serves. The College is heavily reliant on SFC funding which currently represents 73% of the College's total income. As such a small movement in grant funding has a significant impact on the College's financial position.

Borders College and Heriot-Watt University entered an agreement in 2009 to share a campus. This means the College receives an additional stream of rental income from Heriot-Watt. The initial term of the rental agreement comes to an end in October 2026 and the university have indicated that they will be retracting fully from the shared campus and will also be withdrawing from the shared Facilities Management

Services and IT and Digital service agreements. These assumptions have been factored into the College's financial plans where the College is expected to incur a loss of income of £0.994million in 2026/27 which will rise to £1.156million in subsequent years.

The College has recognised the challenge and impact on its financial sustainability resulting from the end of its arrangement with Heriot-Watt University and as result the College is currently working through options to mitigate the risk.

The College has recognised the financial challenges impacting on the sector and as a result has integrated these into medium term financial plans and monitored financial stability as a high risk on the risk register. In addition, the language used in the year end financial outturn reports and budget setting reports to the Board appropriately conveys the extent of the financial challenge, allowing Board members to be kept informed on the extent of the financial challenges and how these specifically impact the college.

We understand that these external factors (e.g. funding decisions, inflation and Heriot-Watt University's exit from the shared campus arrangement) are not entirely within the College's control and that the College is considering all options to maintain appropriate levels of teaching delivery. The College has recognised that achieving a sustainable medium term financial position in the current environment will be extremely challenging, and our assessment continues to reflect this.

Vision, leadership and governance

Leadership

There have been a number of changes to the Board of Management from 1 August 2023 to the date of signing the accounts.

All new Board members were provided with an induction programme prior to their first Board meeting. In view of the number of board-level changes in the financial year, we reviewed the induction process for new Board members and concluded that it provides those charged with governance with the information and platform to commence undertaking their duties effectively.

In addition, the Board held a number of development sessions during 2023/24 including Board Development Days in November 2023 and April 2024. We have concluded that the College provided board members with appropriate and relevant information and a suitable platform to continue to carry out the leadership responsibilities effectively whilst scrutinising management.

Governance arrangements

The Board of Management is responsible for ensuring the overall governance of the College. In driving towards the strategic direction and ensuring the governance framework is operating as intended, the Board continues to be supported by six committees:

- Chairs Committee;
- Finance and Resources Committee;
- Audit & Risk Committee;
- Curriculum, Quality and Student Experience Committee;
- Nominations Committee; and
- Remuneration Committee.

The Board continues to focus on demonstrating continuous improvement and carries out an annual Board Self-Evaluation survey, which was last undertaken in 2024. Overall, the feedback received from Board members was positive and represented an improvement from the previous year's survey. Several areas were identified for continuous improvement, and these were incorporated into the 2024/25 Board Development Plan.

Our review of the College's Governance Statement confirms that the College has complied with the requirements of the Scottish Public Finance Manual (SPFM) and the Accounts Direction.

Board and Committee meetings

Committee meetings have continued to adopt a hybrid approach, with a mixture of members attending in person and online. This has now been incorporated into the College's governance arrangements representing business as usual.

Throughout 2023/24, the College has been able to maintain all aspects of board governance, including its regular schedule of Board and Committee meetings.

Through our review of committee papers, we are satisfied that there continues to be effective scrutiny, challenge and informed decision making through the financial period.

Strategic Ambition 2020-2025 and beyond

In June 2020, the Board approved the College Strategic Ambition which covers up to 2025. The Colleges Strategic Ambition is "to continue to be the learning and training provider of choice for employers, students and staff".

The Ambition takes cognisance of the College's overarching vision, mission and values, and is structured under three strategic objectives:

- We will create high quality learning and training opportunities which are relevant, enabling and flexible;
- We will proactively engage with our community and stakeholders to ensure out practice reflects their needs; and
- We will take a leading role in enabling an inclusive, resilient and sustainable Scotland.

The Ambition is underpinned with a suite of supporting strategies which describe the work that the College intends to carry out over the five years to successfully deliver the long term sustainability of the organisation.

To ensure the College meets its strategic ambitions and objectives an Annual Priority Action Plan is agreed and regular monitoring of actions are reported to the Board. Sufficient progress has been made by the College in achieving the 2023/24 annual priorities, and any actions which are not fully complete during 2023/24 have been incorporated into the 2024/25 Action Plan.

We are satisfied that appropriate arrangements are in place to oversee the delivery of the Strategic Ambition 2020-2025.

The College is currently undertaking work to prepare for the next iteration of the Strategic Ambition (Strategic Ambition 2025-2030). This is due to be presented to the Board in June 2025 for approval and to be implemented by December 2025. The College is currently consulting with stakeholders such as students, staff and the local council through various workshops organised between October and the middle of

November 2024. These consultations will be used to develop the new Strategic Ambition iteration.

At the time of writing, we are satisfied that the College is undergoing appropriate preparations to develop the next iterations of its strategy, Strategic Ambition 2025-2030.

Internal Audit

An effective internal audit service is an important element of an entity's overall governance arrangement. The College's internal audit service is provided by wbg (formerly Wylie & Bisset). We have taken cognisance of the work of internal audit in forming our opinion on the appropriateness of the disclosures in the Governance Statement.

The annual internal audit report was presented to the Audit & Risk Committee in October 2024. This report confirmed that;

"In our opinion, Borders College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of our audit work. In our opinion, the College has proper arrangements to promote and secure value for money."

In addition, internal audit has not advised management of any additional disclosure requirements for the governance statement or any inconsistencies between the governance statement and information they are aware of from its work.

Use of resources to improve outcomes

Performance Management Arrangements

The Financial Memorandum between the SFC and fundable bodies in the college sector requires the Board to:

- Have a strategy for reviewing systematically management's arrangements for securing value for money; and
- As part of internal audit arrangements, obtain a comprehensive appraisal of management's arrangements for achieving value for money.

Securing the economical and effective management of the College's resources and expenditure is the responsibility of the Board. The College is committed to ensuring value for money is achieved through good procurement practice and optimal use of procurement collaboration opportunities.

Performance Framework

The College has developed a performance management framework which comprises updates on key performance indicators (KPIs) at quarterly meetings of the Curriculum & Quality Committee and Finance & Resources Committee. The Principal also includes relevant KPI updates in his quarterly updates to the Board for challenge and scrutiny.

The College has KPIs which are classified into three categories:

- Finance: measures include operating surpluses and reliance on SFC income;
- People: measures consider staff sickness and turnover; and
- Students: measures consider the achievement of credits, levels of applications received and student withdrawal rates.

On an annual basis, the College reviews its KPIs and targets to ensure they remain appropriate with baselines for financial KPI's currently being established for 2024/25 reporting.

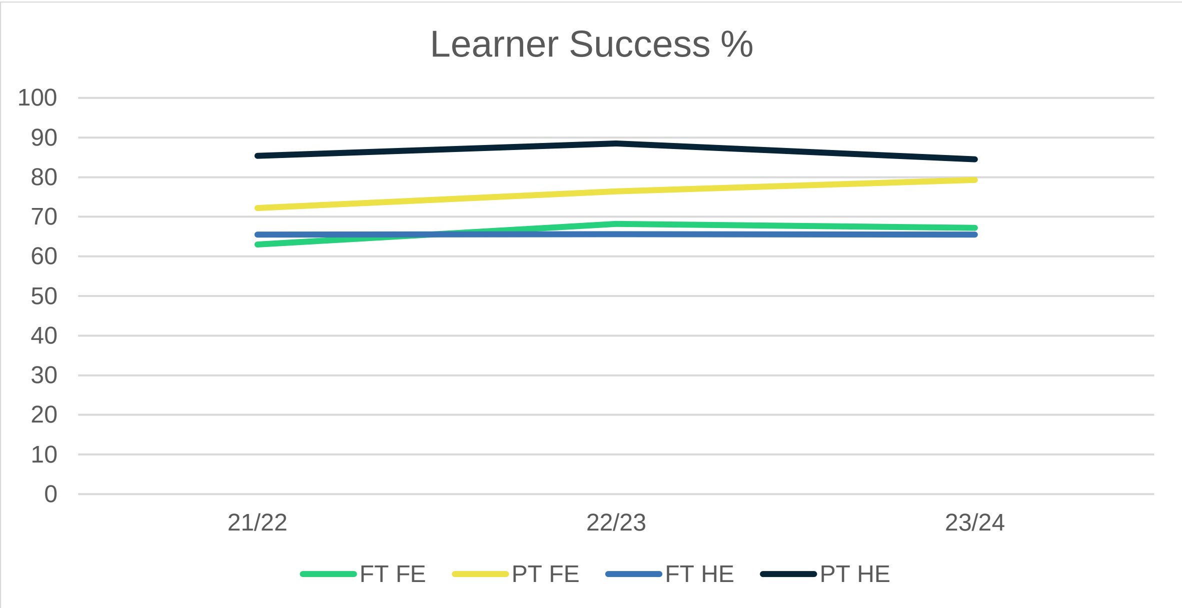
Through review of Board and Committee papers, we concluded that performance is given the appropriate level of scrutiny and challenge.

Performance in 2023/24

The College's performance against key performance indicators show that overall performance is positive. We have highlighted the key performance trends for 2023/24 below (whilst financial performance is detailed in the financial management section).

As highlighted in exhibit 5, both full-time Further and Higher Education success outcome figures have decreased compared to that achieved in 2022/23. This is mainly due to students moving to full time employment as a result of the cost-of-living crisis where the College continues to work collaboratively with the SFC and Education Scotland (ES) to plan and manage adjustments and support improvement for student outcomes. This collaboration supports the College's strategy in ensuring that the College's student outcomes are in the top quartile of colleges nationally. It is likely that the decrease in learner success is due to students not finishing their course and going into full time employment as a result of the cost-of-living crisis.

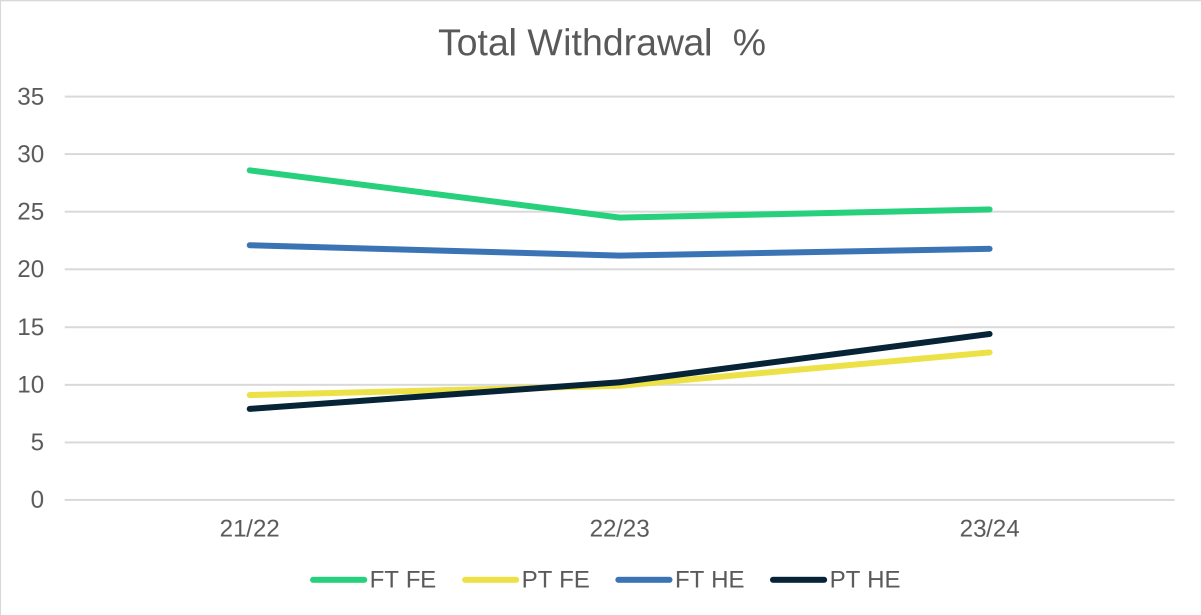
Exhibit 5: Learner success percentages



Source: Performance Update for 23/24 and Annual Accounts

In 2023/24, the volume of core credits achieved by the College was higher than the outcome agreement targets. In 2023/24, the students attending the College achieved a total 24,069 credits against a target of 23,891 credits. This is due to higher enrolment levels across all modes of learning and levels.

Exhibit 6: Withdrawal Rates



Source: Performance Update for 23/24 and Annual Accounts

The College has seen an increase in early withdrawal rates in full time levels from academic year 2022/23, as illustrated in exhibit 6. Similar to student success rate, this is primarily due to students returning to full time employment as a result of the cost-of-living crisis.

In line with SFC requirements, the College performed a student satisfaction survey in 2024. The responses included those from learners from each of the faculties and from a range of courses including full-time and part-time. In almost all areas students indicated higher satisfaction levels than the satisfaction target set of 90%. The survey was very positive, presenting a 93% satisfaction rate.

Overall, the College's performance has remained similar since 2022/23 and as described in the Financial Sustainability section, there is a risk that the scale of savings required to enable the College to achieve a financially sustainable position alongside the significant financial pressures that the College is facing may impact on its ability to deliver curriculum activity or support students and staff in future years. This also presents a risk of deterioration in the College's performance and it is important that the College continues to monitor and assess its ability to offer quality provision of education.

Appendices

Appendix 1: Responsibilities of the College and Auditors

Responsibilities of the College

The Code of Audit Practice (2021) sets out the following responsibilities:

Area	The College's responsibilities
Corporate governance	The Board of Management is responsible for establishing arrangements to ensure the proper conduct of its 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.
Financial statements and related reports	The Board has responsibility for: • preparing financial statements which give a true and fair view of the financial position of the College and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support the balances and transactions in its financial statements and related disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and • preparing and publishing, along with the financial statements, an annual governance statement, governance compliance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements and prepared in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the College and its financial performance, including providing adequate disclosures in accordance with the applicable financial

Area	The College's responsibilities
	reporting framework. The relevant information should be communicated clearly and concisely. 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 its objectives and safeguard and secure value for money from the public funds at its disposal. It is also responsible for establishing effective and appropriate internal audit and risk-management functions.
Standards of conduct for prevention and detection of fraud and error	The College 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.
Financial position	The College is responsible for putting in place proper arrangements to ensure its financial position is soundly based having regard to: • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
Best value	The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value.

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland.

The Code outlines the responsibilities of external auditors and it is a condition of our appointment that we follow it.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the College and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management

Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Vision, leadership and governance

Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.

Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

Best Value

Ministerial guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out their duty to ensure that arrangements are in place to secure Best Value in public services. Through our wider scope audit work, we consider the arrangements put in place by the Accountable Officer to meet these Best Value obligations.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report can be found at https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202223

Independence

The Ethical Standards and ISA (UK) 260 require us to give the College full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical guidance and further to our External Annual Plan issued confirming audit arrangements we do not have any matters to not in that regard.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

In particular:

Non-audit services:

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. Azets provided advisory services to the College on VAT matters. We obtained clearance from our Ethics Partner and Audit Scotland prior to commencing the engagement. The work has been undertaken by a separate team from the audit, and the audit team has had no involvement in this VAT work.

Contingent fees: No contingent fee arrangements are in place for any services provided.

Gifts and hospitality: We have not identified any gifts or hospitality provided to, or received from, any member of the Board, senior management or staff.

Relationships: We have no relationships with the Board, its directors, senior managers and affiliates, and we are not aware of any former partners or staff being employed, or holding discussions in anticipation of employment, as a director, or in a senior management role covering financial, accounting or control related areas.

Our period of total uninterrupted appointment as at the end of 31July 2024 was eight years.

Audit and non-audit services

The total fees charged to the College for the provision of services in 2023/24 were as follows:

		2023/24	2022/23
Auditor remuneration		42,200	39,810
Pooled costs		(4,500)	(5,840)
Audit support costs		0	1,030
Sectoral cap adjustment		(10,970)	(9,790)
Total audit fee		**26,730**	**25,210**
Non-audit services		5,000	1,620
Total fees		**31,730**	**26,830**

Appendix 2: Audit differences identified during the audit

We are required to inform the College of any significant misstatements within the financial statements presented for audit that have been discovered during the course of our audit.

Adjusted misstatements

Details of items corrected following discussions with management are as below.

No	Detail	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Reserves Dr / (Cr) £'000	SoCI Dr / (Cr) £'000
1.	Derecognition of job evaluation income	(1.166)	-	-	1.166
2.	Reclassification of job evaluation liability to a provision		Accruals- 1.166 Provisions- (1.166)		
	Net impact on (income)/expenditure				1.166
	Net impact on net assets				(1.166)

Unadjusted misstatements

We identified one exception during our audit which have remained uncorrected by management, as detailed below:

No	Detail	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Reserves Dr / (Cr) £'000	SoCI Dr / (Cr) £'000
1.	Release of accrued income per extrapolated error identified in accrued income testing (£27,021 of Skillseekers accrued income should have been released during 2023/24. We have been unable to conclude that this represents an isolated error, therefore, this error value has been extrapolated over our accrued income testing population)	(51)			51
	Net impact on (income)/expenditure				51
	Net impact on net assets				(51)

AZETS

Misclassification and disclosure changes

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the College.

We identified a number of reclassification adjustments and some minor presentational issues in the accounts, and these have all been amended by management. Details of all disclosure changes amended by management following discussions are as below.

No	Detail
1.	Remuneration Report- various disclosure points including updates to bandings to agree to the FReM and to reflect deduction of employee contributions from real increase in CETV for employees under the Scottish Teacher's Superannuation Scheme.
2.	Governance Statement- to update wording of internal audit opinion to reflect the 2023/24 internal audit report and minor disclosure points.
3.	Annual Report - various disclosure points identified from completion of disclosure checklists.
4.	Job evaluation- update to Adjusted Operating Position and other disclosures to reflect updated job evaluation accounting treatment, in line with the revised Accounts Direction.

Overall, we found the disclosed accounting policies, significant accounting estimates and the overall disclosures and presentation to be appropriate.

Appendix 3: Follow up of prior year recommendations

We have followed up on the progress the College has made in implementing the recommendations raised in previous years.

1. IT general controls	**Low**
Recommendation	We recommend that the specific IT points identified are addressed.
Implementation date	April 2024
Ongoing	The new Director of IT & Digital is reviewing the remaining 3 sub recommendations and will complete by 31/12/24. **Revised implementation date:** December 2024

2. NFI Exercise	**Low**
Recommendation	We recommend that the College focuses on improving their data submission timeliness and reviews all outstanding matches as a matter of urgency.
Implementation date	December 2023
Closed	All outstanding actions complete for NFI Exercise and staff trained for future exercises. The most recent NFI is currently ongoing where participating bodies are due to submit datasets for matching in October 2024 and November 2024 and will receive matches for investigation in December 2024 and January 2025. We are satisfied that the College is on track to meet the deadline for submitting datasets for matching.

3. Challenging work of an expert	Medium
Recommendation	We recommend that any information provided by an expert should be challenged and documented appropriately, specifically to reach a clear, evidence-led conclusion either that extant carrying values remain appropriate or a general indication as to how values should be revised (e.g by a mix of indices/trends/valuer expert advice). This may include reviewing the information provided by the valuer against comparable data for assets of a similar size, composition and structure which are held by bodies of a similar nature and location.
Implementation date	July 2024
Closed	The College instructed their external valuers (Ryden) to carry out a desktop valuation of its estate as at 31 July 2024. We have gained assurance that the carrying value of the College's estate in the financial statements is in line with the reports received from the Ryden and that reports were subject to appropriate management challenge.

4. Outstanding Pension contributions	Low
Recommendation	We recommend that the College monitors employer pension contributions and ensures the contributions are paid in the correct period.
Implementation date	November 2023
Closed	Review complete and any necessary changes implemented. We have not identified any instances of employer pension contributions not being paid in the correct month as part of our 2023/24 audit work.