Borders College

2022/23 Annual Audit Report to the Board and the Auditor General for Scotland

December 2023

Table of Contents

Key messages

This report concludes our audit of Borders College for 2022/2023.

This section summarises the key findings and conclusions from our audit.

Financial statements audit

Audit opinion	Our independent auditor's report includes: • an unqualified opinion on the financial statements; • an unqualified opinion on regularity; and • an unqualified opinion on other prescribed matters.
Key audit findings	We have reported our audit findings on pages 11-24. We received a high-quality set of draft financial statements and working papers per the deadline set in our audit timetable. Throughout the audit, all requested information was provided in a timely manner and Borders College staff made themselves available for discussions which greatly assisted this year's audit process.
Audit adjustments	We are required to communicate all potential adjustments, other than those considered to be clearly trivial. Adjustments identified by the audit team and communicated by Borders College are detailed in Appendix 2. We identified one unadjusted item, the details of which are included in Appendix 2. A small number of disclosure amendments reflected in the financial statements are listed in Appendix 2

Accounting systems and internal controls	We have applied our risk based methodology to your 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, as part of our testing, we identified control weaknesses, we have included these in Appendix 3 of our report. No material weaknesses or significant deficiencies were noted. We have followed up on the progress the College has made in implementing the recommendations raised in previous years in Appendix 4 of the report.

Wider scope audit

	Auditor judgement No major weaknesses in arrangements but scope for improvement exists
Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	The College has demonstrated overall sound financial management but faces unprecedented and continuing challenges resulting from current levels of inflation and related public sector funding levels/extent of increases. The College reported an adjusted operating deficit of £0.050million for the year. This represents an improvement to in year performance when compared to the initial budget deficit of c.£0.299million and was achieved mainly through an increase in project and grant income, recovery of previous year catering losses and a freeze on spend. The College faced delays following changes in staff during the year which resulted in no NFI matches being investigated and closed down in 2023. We are satisfied that the College is undertaking appropriate training with Audit Scotland to ensure all those involved in the NFI process have an appropriate understanding of the process and requirements. We have made a recommendation to the College to improve its IT controls in relation to the key financial systems.

	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 College 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 FFR which forecasts 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. There remain a number of forecasting uncertainties in relation to staff pay awards, inflation and sector wide issues which contribute to increased financial risk and uncertainty. 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 2023/24 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. In June 2020, the Board approved the College Strategic Ambition which is "to continue to be the learning and training provider of choice for employers, students and staff". We are satisfied that appropriate arrangements are in place to oversee the delivery of the Strategic Ambition 2020-2025.
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 improved since 2021/22 but there is a risk that the scale of savings required to enable the College to achieve a financially sustainable position may impact on the College's 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, especially in relation to student performance measures.

Definition

Our wider scope audit involves consideration of the College's arrangements as they relate to financial sustainability, financial management, vision, leadership and governance, and use of resources to improve outcomes. We have used the following grading to provide an overall assessment of the arrangements in place as they relate to the four dimensions.

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

Significant unmitigated risks affect achievement of corporate objectives

No major weaknesses in arrangements but scope for improvement exists

Pace and depth of improvement are adequate

Risks exist to achievement of operational objectives

Effective and appropriate arrangements are in place

Pace and depth of improvement are effective

Risks to achievement of objectives are managed

Introduction

The annual audit comprises the audit of the financial statements and the wider-scope audit responsibilities set out in the Code of Audit Practice.

We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit Committee at the outset of our audit. The core elements of our work include:

- an audit of the 2022/23 annual report and accounts and related matters;
- consideration of the wider dimensions of public audit work;
- monitoring the college's participation in the National Fraud initiative; and
- any other work requested by Audit Scotland.

Responsibilities

The College is responsible for preparing an annual report and accounts which show a true and fair view 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.

Openness and transparency

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

Annual report and accounts audit

The College's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

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.	We have issued an unqualified audit opinion on the 2022/23 financial statements.
Going concern basis of accounting	In the public sector, 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. Our wider scope audit work considers the financial sustainability of the College.	We reviewed the financial forecasts for 2023/24. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the College will continue to operate for at least 12 months from the signing date. In our going concern assessment, we take cognisance of matters relevant to public sector bodies. Our audit opinion is unqualified in this respect.

Opinion	Basis for opinion	Conclusions
Opinions prescribed by the Auditor General for Scotland on: • Performance Report and Governance Statement • Remuneration and Staff Report	We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with relevant legislation and regulations.	The annual report contains no material misstatements or inconsistencies with the financial statements. We have concluded that: • the information given in the Performance Report and in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; • the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

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 part of the remuneration report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit.	We have no matters to report.

An overview of the scope of our audit

The scope of our audit was detailed in our Annual Audit Plan, which was presented to the Audit Committee in May 2023. 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. 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.

At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

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. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

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 were designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we consider 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 accounts as a whole, and not to express an opinion on individual accounts or disclosures.

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

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	In any organisation there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with *ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements.* This was considered to be a significant risk and Key Audit Matter for the audit.
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 the College's controls for specific transactions. **Audit procedures** • Review the College's accounting records and audit testing on transactions. • Adopt data analytics techniques in testing carried out. • Test high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness,

Risk area	Management override of controls
	corroboration and to ensure approval has been undertaken in line with the College's journals policy. • Review judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.
Key observations	Our work in this area is complete. We did not identify any indication of management override of controls from our audit work. We did not identify any areas of bias in key judgements made by management. Key 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 College could adopt accounting policies or recognise income transactions in such a way as to lead to a material misstatement in the reported financial position. This was considered to be a significant risk and Key Audit Matter for the audit.

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. However, we do not deem this risk to be present for revenue resource allocations from the Scottish Funding Council due to a lack of incentive and opportunity to manipulate transactions. **Audit procedures** • Evaluate the significant revenue streams and review the controls in place over accounting for revenue. • Consider the College's key areas of revenue and obtain evidence that revenue is recorded in line with appropriate accounting policies and that the policies have been applied consistently across the year. • Test a sample of income items.
Key observations	We have gained reasonable assurance on the completeness, accuracy and occurrence of income and we are satisfied that it is fairly stated in the financial statements.

Key risk area	Fraud in non-pay expenditure
Significant risk description	As most public sector bodies are net expenditure bodies, the risk of fraud is also present in relation to expenditure. There is a risk that expenditure may be materially misstated in the financial statements. This was considered to be a significant risk and Key Audit Matter for the audit.
How the scope of our audit responded to the significant risk	Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end. **Audit procedures** • Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. • Consider College's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Review accruals around the year end to consider if there is any indication of understatement of balances held. Consider accounting estimates. • Test a sample of expenditure items.
Key observations	We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.

Key risk area	Pension asset (key accounting estimate)
Significant risk description	An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under FRS 102 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership date held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate. This was considered to be a significant risk and Key Audit Matter for the audit.
How the scope of our audit responded to the significant risk	**Key judgements** Given that small movements in the underlaying assumptions may translate into significant changes of the pension asset we deem this area to be subject to a high risk of misstatement. **Audit procedures** • Review the controls in place to ensure that the data provided from the pension fund is complete and accurate. • Review the reasonableness of the assumptions used in the calculation against the pension fund actuary and other observable data. • Agree the disclosures in the financial statements to information provided by the actuary. • Consider completeness and accuracy of the information provided by the College to the actuary. • Ensure that we can rely on actuary’s work as an expert by obtaining sufficient appropriate audit evidence that such work is adequate for the purposes of the audit.

Key risk area	Pension asset (key accounting estimate)
Key observations	The net pension asset was £948k as at 31 July 2023 (2022 net pension liability of £1.631 million). We gained reasonable assurance that the pension assumptions used are appropriate and that the pension asset is not misstated in the annual accounts. We reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data. Per the actuarial report, a pension asset ceiling of £979k was calculated. As the asset ceiling is higher than the net pension asset, we are satisfied that Borders College have correctly recognised the lower of the net pension asset and the asset ceiling. No issues were identified per our testing performed. 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	Valuation of land and buildings (key accounting estimate)
Significant risk description	Borders College held land and buildings with a net book value of £29.6 million at 31 July 2022, with external valuations last undertaken as at 31 July 2022. 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** There is the potential for management to use their judgement to influence the financial statements. **Audit procedures** • Evaluate management processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts and the scope of their work.

Key risk area	Valuation of land and buildings (key accounting estimate)
	• Evaluate the competence, capabilities, and objectivity of the valuation expert. • Consider the basis on which the valuation is carried out and the challenging of the key assumptions is applied. • Test the information used by the valuer to ensure it is complete and consistent with our understanding. If there have been any specific changes to the assets in the year, we will ensure these have been communicated to the valuer. • Ensure revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct. • Evaluate the assumptions made by management for any assets not revalued during the year and how management are satisfied that these are not materially different to the current value.
Key observations	We reviewed the evidence provided by the College, which concluded that there was no material movement in the valuation of the College's land and buildings between 31 July 2022 and 31 July 2023. We subsequently challenged this conclusion based on current market data including indices/trends. The College subsequently instructed their valuer to reperform the same calculations adopted in the 31 July 2022 valuation based on current market data. The recalculation indicated that there was a material increase in the valuation of the land and buildings held at 31 July 2023. We have therefore raised an audit adjustment in Appendix 2 to recognise a revaluation gain on land and buildings held at 31 July 2023. We have also raised a recommendation in Appendix 3 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).

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.
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** • Considering 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 2023. • Reviewing 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 2023 appropriately reflects the expected level of required lifecycle costs and related documentation. Maintenance spend is monitored by the Campus Management Committee and there has been no indication of significant changes in the campus and related shared arrangements since the last independent Quantity Surveyor assessment in 2018/19.

Estimates and judgements

We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.

As part of the planning and fieldwork 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 asset, provisions and accruals. Other than the pension asset, asset valuation and the Netherdale provision we have not determined the other accounting estimates to be significant. We revisited our assessment during the completion stages of our audit and concluded that our assessment remained appropriate.

Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

Estimates and judgements	
Pension assumptions	**Auditor judgement: Balanced**
Management consider the present value of retirement obligations on an annual basis. The valuation is carried out by the actuarial firm Hymans Robertson. We considered key assumptions against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 July 2023. The assumptions of the actuary, Hymans Robertson, were within our expected range. The assumptions were predominantly in the middle our expected range with the exception of the discount rate which, while within our expected range, is considered to be on the prudent end of the scale. We recalculated the pension asset ceiling and we are comfortable that the pension asset is held at £948k, which is lower than the pension asset ceiling. We are therefore satisfied that the pension asset is not materially misstated in the financial statements.	
Estates valuation	**Auditor judgement: Balance**
Land and buildings are subject to professional valuation every five years, or where material changes are identified. The last professional valuation was undertaken as at 31 July 2022. We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the experts was appropriate.	

Estimates and judgements

We considered the key assumptions made by management when determining the fair value as at 31 July 2023 against other sources of evidence.

We subsequently challenged the key assumptions made by management based on current market data including indices/trends. The College subsequently instructed their valuer to reperform the same calculations adopted in the 31 July 2022 valuation based on current market data. The recalculation indicated that there was a material increase in the valuation of the land and buildings held at 31 July 2023.

We have therefore raised an audit adjustment in Appendix 2 to recognise a revaluation gain on land and buildings held at 31 July 2023. We are therefore satisfied that the revised asset valuation as at 31 July 2023 is appropriate

Provision for Netherdale lifecycle costs	Auditor judgement: Balanced

There is a reasonable degree of subjectivity in the measurement and valuation of the provision for Netherdale lifecycle costs. We considered key assumptions and are satisfied that these are reflective of the agreement and related costs.

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 the College and the needs of users. We review 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 to the College and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

College Materiality

Our initial assessment of materiality for the College’s financial statements was £261,000. On receipt of the unaudited financial statements, we reassessed materiality and updated this to £243,000. We consider that our assessment has remained appropriate throughout our audit.

	£
Overall materiality for the financial statements	243,000
Performance materiality	182,250
Trivial threshold	12,150

Materiality	Our assessment is made with reference to the College's expenditure levels. We consider expenditure to be the principal consideration for the users of the financial statements when assessing the performance of the College. Our assessment of materiality equates to approximately 1.5% of the College's expenditure as disclosed in the 2022/23 unaudited annual accounts. In performing our audit, we apply a lower level of materiality to the audit of the Remuneration and Staff Report. Our materiality in this respect is set at £5,000.
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	Clearly trivial are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Audit differences

Adjustments identified by the audit team and communicated by Borders College are detailed in Appendix 2.

We identified one unadjusted item, the details of which are included in Appendix 2.

A small number of disclosure amendments reflected in the financial statements are listed 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 to the College. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Our action plan in Appendix 3 details the weaknesses and opportunities for improvement that we have identified during our audit. No material weaknesses or significant deficiencies were noted.

We have followed up on the progress the College has made in implementing the recommendations raised in previous years in Appendix 4 of the report.

Other communications

Accounting policies, presentation and disclosures

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

The accounting policies, which are disclosed in the annual accounts, are in line with the FE SORP, and are considered appropriate.

We will conclude on whether all the disclosures required by relevant legislation and applicable accounting standards have been made appropriately once the final, complete set of accounts is provided.

Overall, we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate subject to the above checks.

Fraud and suspected fraud

We have previously discussed the risk of fraud with management. 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 Funds. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

Written representations

We provided the final letter of representation to the Board of Management for signing at the same time as the financial statements are approved.

Related parties

The first version of the accounts did not have the relevant disclosures made. The College updated the accounts following our findings.

Confirmations from third parties

We have received all third parties confirmations required for the purpose of our audit.

Wider Scope

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** No major weaknesses in arrangements but scope for improvement exists The College has demonstrated overall sound financial management but faces unprecedented and continuing challenges resulting from current levels of inflation and related public sector funding levels/extent of increases. The College reported an adjusted operating deficit of £0.050million for the year. This represents an improvement to in year performance when compared to the initial budget deficit of c.£0.299million and was achieved mainly through an increase in project and grant income, recovery of previous year catering losses and a freeze on spend. The College faced delays following changes in staff during the year which resulted in no NFI matches being investigated and closed down in 2023. We are satisfied that the College is undertaking appropriate training with Audit Scotland to ensure all those involved in the NFI process have an appropriate understanding of the process and requirements. We have made a recommendation to the College to improve its IT controls in relation to the key financial systems.

Financial sustainability Financial sustainability looks forward to the medium and longer term to consider whether the College is planning effectively to continue to deliver its services and the way in which they should be delivered.	**Auditor judgement** Significant unmitigated risks affect achievement of corporate objectives 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 FFR which forecasts 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. There remain a number of forecasting uncertainties in relation to staff pay awards, inflation and sector wide issues which contribute to increased financial risk and uncertainty. 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 2023/24 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. In June 2020, the Board approved the College Strategic Ambition which is "to continue to be the learning and training provider of choice for employers, students and staff". We are satisfied that appropriate arrangements are in place to oversee the delivery of the Strategic Ambition 2020-2025.
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 improved since 2021/22 but there is a risk that the scale of savings required to enable the College to achieve a financially sustainable position may impact on the College's 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, especially in relation to student performance measures.

Financial management

Financial performance 2022/23

The College reported a deficit before other gains and losses of £0.683million for the year ended 31 July 2023, equating to 4% of the College's total income.

Adjusting for non-cash transactions per SFC directions, such as depreciation (£0.220million), the net charge arising from the pension valuation (£0.665million), and revenue funding allocated to loan payments (£0.252million), the College shows an "adjusted" operating deficit of £0.050million (2021/22: surplus of £0.332million). This represents an improvement to in year performance when compared to the initial budget deficit of c.£0.299million.

The College set an ambitious savings target of £0.537million for 2022/23. This was delivered in full, a notable achievement in a year where the College faced such financial uncertainty.

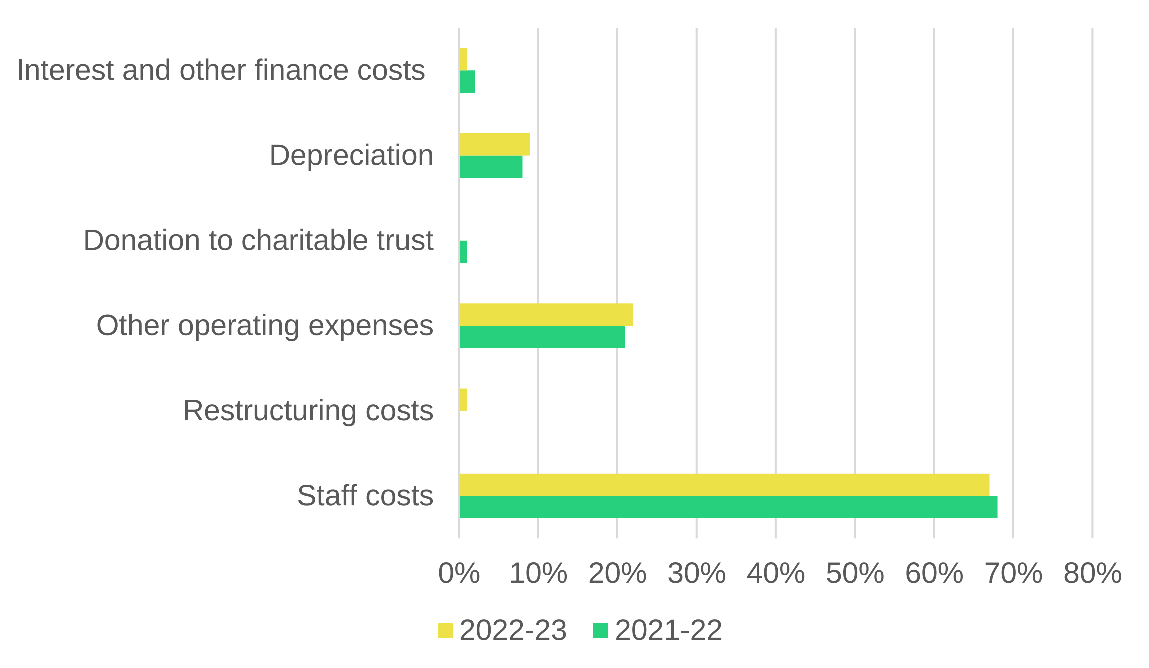
The College's main source of income continues to be grant funding from the SFC (74% of total income in 2022/23). The financial position improved in the year and when compared to the prior year due to income received from additional credit activity and a positive release from Deferred Capital Grants.

As detailed in exhibit 1, staff costs continue to be the highest area of spend for the College accounting for 67% (68% in 2021/22) of total expenditure. When compared to the previous year these costs decreased by 8% mainly reflecting an increase savings achieved from severance schemes offset by difficulties with recruitment and filling vacancies during the year.

The cost of voluntary severance in the year was higher than last year at £0.176million (£0.056million 2021/22) and 12 members of staff took advantage of the scheme in 2022/23. This represented around 5% of total headcount. The College's voluntary severance programme is expected to continue into future years as the main way to achieve savings in expenditure.

At the time of writing, 2022/23 pay awards are not yet agreed. Pay negotiations are currently ongoing for the 2022/23 and 2023/24 pay award for both support and teaching staff. The year end outturn assumptions have been calculated based on the flat rate final offer of £2,000 per FTE which represents Colleges Employers Scotland's full and final offer to the formal dispute on pay which has been taken to staff unions.

Exhibit 1 Key expenditure items- 2 year comparison



Source: Annual Accounts 2022/23 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 Lifecyle Maintenance Fund - held by the College was £1.600million at year end (representing 34 cash days). This represents a slight decrease from the cash position at 31 July 2022 of £1.685million and 36 cash days.

A cash days target would help 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.

Systems of internal control

We have evaluated the College's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.

We consider the system of control in place at the College to be good. Our work on general IT controls identified some weaknesses in relation to key financial systems.

Recommendation 1

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, although the specific engagement and activity in relation to the National Fraud Initiative (NFI) would benefit from further development and is explained in more detail below.

Regular updates on fraud related matters (including Counter Fraud Services updates and based on our recommendation the National Fraud Initiative) are presented to the Audit 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 exercise commenced in 2022, with matches received for investigation from January 2023. Matches require to be investigated by 30 September 2023 and the results recorded on the NFI system.

The College faced delays following changes in staff during the year which resulted in no NFI matches being investigated and closed down in during 2023. The Vice Principal Finance & Corporate Services and Director of Finance and Procurement have recently undertaken training with Audit Scotland which covered areas including NFI requirements and navigating the portal. In conjunction with Audit Scotland, an initial assessment was carried out of all outstanding matches and no high risk areas were identified. The Director of Finance and Procurement has committed to review all outstanding matches by December 2023.

Overall, we concluded that NFI arrangements are not satisfactory and the College should focus on improving its data submission timeliness. We are satisfied that the College is undertaking appropriate training with Audit Scotland to ensure all those involved in the NFI process have an appropriate understanding of the process and requirements.

Recommendation 2

Financial sustainability

Significant audit risk

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

Financial sustainability
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 2022/23 Financial Forecast Return (FFR), as approved by the Regional Board in October 2022, anticipated an operating surplus of £0.180 million in 2022/23 and operating deficits from 2023/24 to 2026/27. However, potential income and expenditure savings opportunities totalling £2.792million have been identified for the period 2022/23 to 2026/27. The greatest risks to the College's sustainability are those around levels of funding from SFC, particularly with the removal of the one-off elements funded through Barnett consequential in 2021-22, and the projected "flat cash" position for 2023-24 and beyond. Staff costs continues to be a significant pressure area for the College and a key aspect of the College's ambitious savings plan. It is therefore crucial that the College focuses on development and implementation of operational plans which support the workforce strategy approved in December 2020. The emerging and uncertain impact on the College's finances and, ability to deliver savings plans and services in a sustainable manner remains a significant challenge and risk.

Our detailed findings on the College's arrangements for achieving long term financial sustainability are set out below.

2023/24 Financial Plan

The Board approved the 2023/24 budget in June 2023, in line with agreed timescales.

Due to the significant financial pressures facing the College sector - including pay award uncertainty, inflationary pressures and reduced funding - the College developed several budget scenarios as part of their 2023/24 budget setting process. The financial scenarios considered were optimistic, realistic and pessimistic. The assumptions within the realistic scenario were applied to the budget approved by the Board.

The 2023/24 budget projects an operating deficit of £0.087million. Adjusting for non-cash items such as notional interest and depreciation gives a forecast adjusted operating surplus of £0.001million.

Budgeted income of £14.852million is 5% lower than 2022/23 actual income. The SFC published final colleges funding allocations in May 2023. The 2023/24 SFC main grant allocation for the College is £9.878million based on flat cash but with a reduction of 10% in education delivery. This translated into the same reduction for the College's credit target for 2023/24, which is set at 23,891 (26,546 in 2022/23).

Budgeted expenditure of £14.939million is lower than 2022/23 actual expenditure. Increases in staff costs have been offset by savings elsewhere across the budget.

Savings plan

Achievement of the 2023/24 budgeted operating position is dependent on the College's performance in delivering savings targets. A significant savings plan totalling £0.211million has been identified as detailed in exhibit 2.

Exhibit 2: 2023/24 savings plan

	2023/24 £000
Net income increase	(107)
Pay awards and miscellaneous pay adjustments	471
Structure review & Voluntary Severance	(503)
Net Supplies & Services savings	(72)
Total Net Savings	**(211)**

Source: 2023/24 Draft Budget and Financial Forecast Return- June 2023

Capital Expenditure

The College has received an allocation of £0.413million for backlog and lifecycle maintenance.

Projects included in the recommended capital allocation approved as part of the 2023/24 budget are detailed in exhibit 3.

Exhibit 3: 2023/24 capital budget

	Budget £
Life cycle and maintenance of assets	172,416
Replacement of two mini buses	82,000
Grounds Management equipment	30,000
Phase one of project to refresh business critical IT network	24,000
Phase two of development of e-sports class room to meet curriculum requirements	25,000
Brake Roller Tester/MOT Testing facilities	20,000
Payroll system upgrade	21,000
Newtown St Boswells- Student Welfare facilities	30,000
Phase one of finance system upgrade	5,000
Contingency	4,055
Total Capital Plan	**413,471**

Source: 2023/24 Draft Budget and Financial Forecast Return- June 2023

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 2023 and the FFR was approved by the Board in June 2023.

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 has taken into account the results from the Scottish Government's Spending Review, published on 31 May 2022, 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 2023-24 final funding announcement.
- Flexible Workforce Development Funding will continue at current levels.
- Student support funding requirements will be fully met.
- SFC capital maintenance funding should be based on the final 2023/24 funding allocations.
- Funding for digital poverty will not continue at 2022/23 levels for 2023/24 only.
- Staff costs will reflect: agreed cost of living increases, public sector pay policy, no assumed increase in social security costs and any known or expected increases in employer pension contribution rates.
- Funding will not be provided for voluntary severance schemes.

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

The FFR anticipates an adjusted operating surplus in 2023/24 and adjusted operating deficits for 2024/25 and 2025/26, as shown in exhibit 4.

Exhibit 4- Adjusted Operating Position 2023/24-2025/26

	2023/24 £'000	2024/25 £'000	2025/26 £'000
Total income	14,852	14,845	14,855
Total expenditure	(14,939)	(15,318)	(15,691)
Operating surplus / (deficit)	**(87)**	**(473)**	**(836)**
Adjusted operating surplus / (deficit)	**1**	**(374)**	**(743)**

Source: Financial Forecast Return 2022/23 to 2025/26

The College has commenced several key elements of work in 2023/24 to look at the effectiveness and efficiencies of services offered to identify areas of further savings over the short and medium term. These include a review of Student Support Services and all support role functions. A full review of the Colleges current estate is also underway with options being reviewed to reduce the estate.

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 deliver 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 which for 2023/24 equates to a reduction of 8.5% in real terms.

As a result, Scotland's further education sector, already in financial recovery following the impact of Covid-19, now faces a precarious financial future as general and wage inflation costs significantly exceed current funding levels.

The College is heavily reliant on SFC funding which currently represents c.68% of the College's total income. As such a small movement in grant funding has a significant impact on the College's financial position.

The initial term of the agreement with Heriot-Watt for the shared campus comes to an end in October 2026. Under the agreement Heriot-Watt can extend the full lease for a further 7 years and 6 months, which will require them to pay a cash rent to the College or vacate the shared building. Following discussion at the Board in March 2023 Heriot-Watt has been granted an extension of time to confirm to the College of their preferred option. All scenarios within financial planning are based on the current position remaining fully in place but there is a risk that this could result in a loss of income in the medium to longer term.

Staff pay negotiations are currently ongoing for the 2022/23 and 2023/24 pay award for both support and teaching staff and if the agreed pay award is higher than budgeted then this also presents a significant risk to the College's financial position.

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 convey the extent of the financial challenge, allowing Board members to be kept informed on the extent of the challenges and how these specifically impact on the College.

We do understand that these external factors (e.g. funding decisions, inflation, pay awards) are not entirely within the College's control and the College is considering all options to maintain appropriate levels of the teaching delivery. The College itself has recognised that achieving a sustainable medium term financial position in the current environment will be extremely challenging, and our position and assessment reflects this.

Vision, leadership and governance

Leadership

There have been a number of changes to the Board of Management from 1 August 2022 to the date of signing of 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 several development sessions during 2022/23 including a Board Development Day in November 2022 and a Board Development Evening in April 2023. From review of the Board development sessions, we have concluded that they provided board members with appropriate and relevant information and a suitable platform to continue to discharge their leadership responsibilities effectively.

Governance arrangements

The Board of Management is responsible for ensuring the overall governance of the College. In driving forwards 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 Committee;
- Curriculum, Quality and Student Experience Committee;
- Nominations Committee; and
- Remuneration Committee.

The Board is focused on demonstrating continuous improvement and carries out an annual Board Self-Evaluation Survey where the latest was undertaken in June 2022. Overall, the feedback received from Board members was considered as positive. Several areas were identified for continuous improvement, and these were incorporated into the 2022/23 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

The College adapted its governance arrangements in response to the pandemic. Both the Board and its Committees have continued to adopt a hybrid approach to meetings during 2022/23 and this has now been incorporated into the College's governance arrangements as business as usual.

Throughout 2022/23, 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

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".

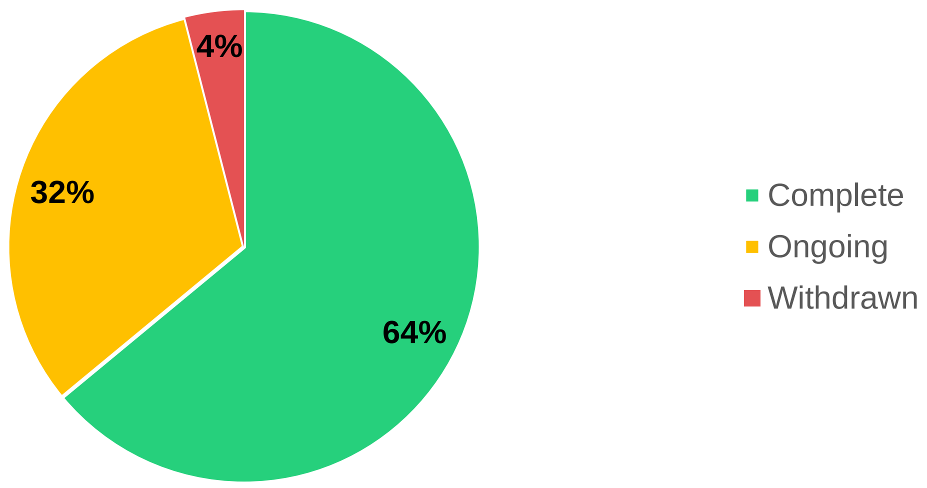
The Ambition takes cognisance of the College's overarching vision, mission and values, and is structured under three strategic objectives:

- 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 2022/23 annual priorities, as detailed in exhibit 5, and any actions which are not fully complete during 2022/23 have been incorporated into the 2023/24 Action Plan.

Exhibit 5: 2022/23 Annual Priority performance



Source: Strategic Priorities Action Plan 2022-23- July 2023

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

Risk management

The College's risk register is regularly updated to reflect the various risks which impacts on the College's operations, including the development of mitigating actions where appropriate to reduce risk.

Following feedback from both College officers and Board members work was undertaken during 2022/23 to revise the format of the risk register. The risk register has been revised for the new academic year with 12 strategic risks now being included in the register. The format of the risk register was revised to make it more user friendly and to allow for additional transparency and scrutiny of all risks. Each Committee will now discuss the risks relating to that Committee activity and the whole risk register will be taken to Board.

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 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 Committee in October 2023. 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 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.

Standards of conduct

In our opinion the College's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and for complying with national and local codes of conduct.

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 (VfM); 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.

In addition, Assistant Principals and Learn Support meetings are used to deeper dive into areas of poor performance.

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 2023/24 reporting.

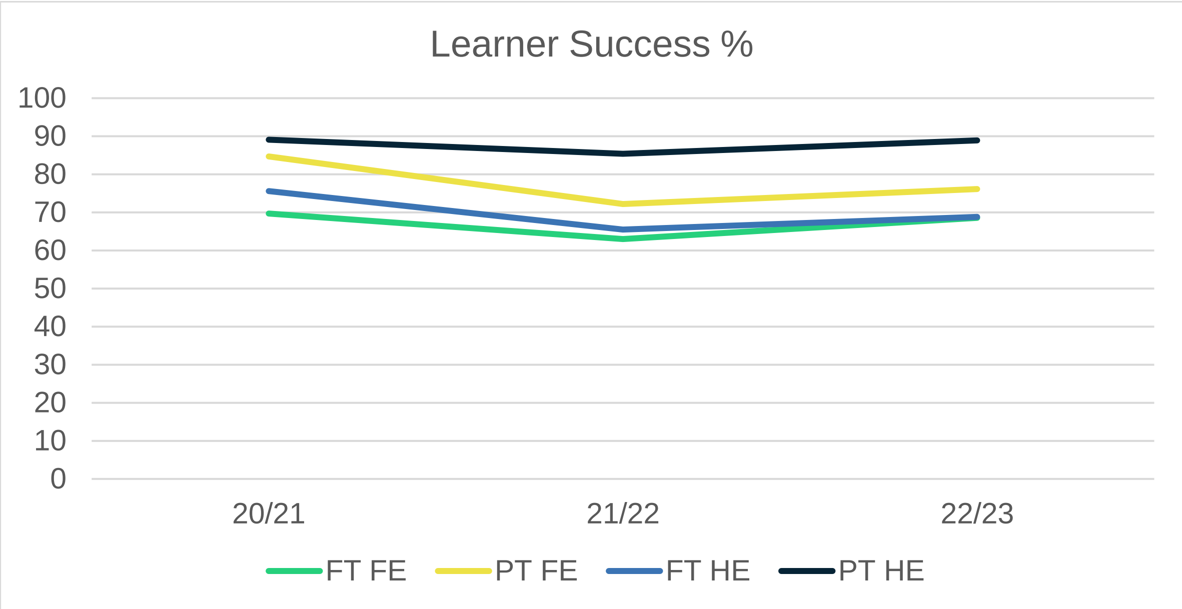
Through review of Board and Committee papers, we concluded that performance is given the appropriate level of scrutiny and challenge.

Performance in 2022/23

The College's performance against key performance indicators shows that overall performance has improved since 2021/22. We have highlighted the key performance trends for 2022/23 below (whilst financial performance is detailed in the financial management section).

As highlighted in exhibit 6, both full-time Further and Higher Education success outcome figures have increased compared to that achieved in 2018/19. The reductions in learner success rates in 2021/22 were likely caused by uncertainty and disruption and high levels of online learning which was a necessity during the pandemic.

Exhibit 6: Learner success percentages

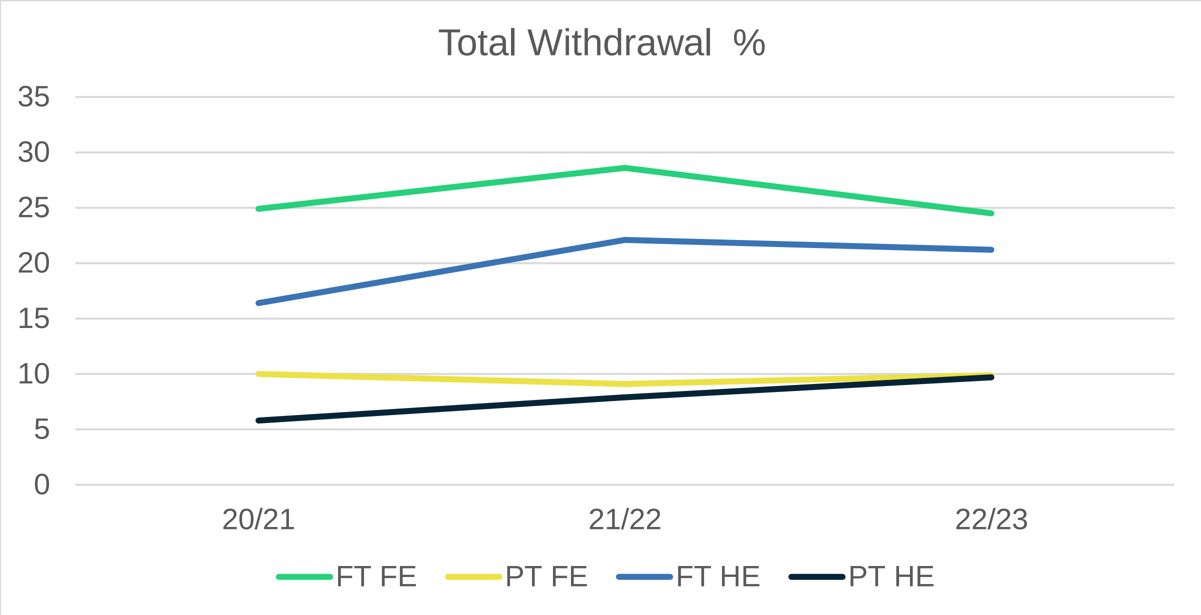


Source: Performance Update for 22/23- October 2023 and Annual Accounts

The college has seen a decrease in early withdrawal rates in full time levels from academic year 21/22. The increase in part time withdrawals can be largely attributed to Schools Academy pupils returning to school to study during the COVID-19 pandemic.

Following the consistent trend from 2019/20, the volume of core credits achieved by the College in 2022/23 was higher than the outcome agreement targets. In 2022/23, the students attending the College achieved a total 26,747 credits against a target of 26,546 credits. This is due to higher enrolment levels across all modes of learning and levels.

Exhibit 7: Withdrawals rates



Source: Performance Update for 22/23- October 2023 and Annual Accounts

In line with SFC requirements, the College performed a student satisfaction survey in March 2023. 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 over the College's set satisfaction target of 90%.

Overall, the College's performance has improved since 2021/22 however, 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 may impact on the College's 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, especially in relation to student performance measures.

Climate change

The Auditor General and Accounts Commission are developing a national programme of audit work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

For 2022/23 audits, external auditors were required to gather basic information on the arrangements for responding to climate change in each body through completion of a questionnaire.

The College's Sustainability Strategy was approved by the Board in 2020 to the support the delivery of the Strategic Ambition 2020-2025. The Strategy includes the College's corporate emission reduction target of being net zero by 2045.

The implementation of the strategy has continued across both the estate and the curriculum. Key activities completed during 2022/23 include:

- Completion of feasibility studies and development of funding application to remove gas as the primary/secondary heating source
- New waste management contract awarded which will ensure the College will be zero to landfill from 2023
- Car fleet now 100% electric
- Sustainability embedded in procurement exercises
- Climate Change and “Sustainability and me” modules included in student induction
- Short course developed and delivered for Sustainable Awareness, EV charging installation, Carbon warrior, Renewable awareness and many other
- Development of assessment template to base lining of curriculum against the 17 Sustainability Development Goals
- Development of a sustainability calendar which highlights and encourages changes to behaviours in different areas each month throughout the year.

The College remains at the forefront of sustainability across the College sector and was recognised both within the UK and internationally by winning the Green Gowns – 2030 Climate Action. The category recognised institutions with clear plans on how they will reach net zero emissions and looked for innovative ideas and approaches being taken in its implementation.

During 2022/23, the College has monitored progress towards meetings its emission targets through Committee Reporting, the Outcome Agreement and through annual performance reporting.

Appendices

Appendix 1: Responsibilities of the College and the Auditor

Responsibilities of the College

The College has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

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, working with senior executives.
Financial statements and related reports	The Board has responsibility for: • preparing financial statements which give a true and fair view of its financial position and the 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 that support its financial statements and related reports 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; • maintaining proper accounting records; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of the College. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users

Area	The College's responsibilities
	about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely. The Board of Management is responsible for ensuring the development and implementation of 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.

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 2021 Code came into effect from 2022/23.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Auditor General 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.

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 Audit 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.

Our period of total uninterrupted appointment as at the end of 31 March 2023 was seven years.

Audit and non-audit services

The total fees charged to the College for the provision of services in 2022/23 were as follows:

	Current year £	**Prior year £**
Audit of Borders College (Audit remuneration)	39,810	16,465
Total audit	39,810	16,465
Non-audit services	1,620	1,300
Total fees	41,430	17,765

In addition to the above, for 2022/23 Audit Scotland indicated Pooled Costs of (£5,840), Audit Support Costs of £1,030, and Sectoral Cap Adjustment of (£9,790).

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. We 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.

Appendix 2: Audit differences and unadjusted misstatements identified during the audit

Details of adjustments identified by the audit team and communicated by Borders College, in addition to unadjusted misstatements are detailed below.

Current Year Adjustments

No	Detail	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Reserves Dr / (Cr) £'000	SOCIE Dr / (Cr) £'000
1.	Fixed Assets – Cost	364			
	Fixed Assets – Accumulated Depreciation	986			
	Revaluation Reserve			(1,350)	
	Being audit adjustment to reflect the revaluation gain of land and buildings at 31 July 2023.				
	Net impact on SOCIE			**-**	**(1,350)**
	Net impact on net assets				**(1,350)**

No	Detail	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Reserves Dr / (Cr) £'000	SOCIE Dr / (Cr) £'000
2.	Income & expenditure reserve			193	
	Revaluation reserve			(193)	
	Being adjustment raised by Borders College to reflect the revised estimation technique for the annual transfer from the revaluation reserve.				
	Net impact on SOCIE			**-**	**-**
	Net impact on net assets				**-**

Prior Year Adjustments

No	Detail	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Reserves Dr / (Cr) £'000	SOCIE Dr / (Cr) £'000
1.	Other operating income Other operating expenses **Being presentational audit adjustment to net off catering income and expenditure as per the agency relationship between Borders College and Baxter Storey.**				185 (185)
	Net impact on SOCIE			**-**	**-**
	Net impact on net assets				**-**

Unadjusted misstatements

No	Detail	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Reserves Dr / (Cr) £'000	SOCIE Dr / (Cr) £'000
1.	Deferred Income FRS 12 Provision **Being the transfer from deferred income to the FRS 12 Provision for the lifecycle maintenance fund.**		83 (83)		
	Net impact on SOCIE			**-**	**-**
	Net impact on net assets				**-**

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 College's 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.	Reclassification of lease obligation balance to reflect the correct ageing split.
2.	Cashflow statement updated to include gain on fixed asset disposal.
3.	Related party disclosures updated to include correct amounts for Scottish Borders Council and Borders Further Education Trust.
4.	Governance Statement updates required to comply with FReM improvement areas.
5.	Exit packages disclosure in the Remuneration and Staff Report updated to include two additional employees.
6.	Additional disclosure in the revaluation reserve accounting policy with respect to the revised estimation used.
7.	Reallocation of pension asset from non-current liabilities to non-current assets.

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

Appendix 3: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

Action plan grading structure

To assist the College in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated as follows:

Rating	Assessment rationale
High	An issue that results in a severe impact to the achievement of objectives in the area audited.
Medium	An issue that results in a moderate impact to the achievement of objectives in the area audited.
Low	An issue that results in a small impact to the achievement of objectives in the area audited.

Current year action plan

1. IT general controls	Low
Observation	Our specialist Technology Risk team reviewed the design and implementation of IT general controls in the key systems impacting preparation of the financial statements and identified a number of areas for improvement in relation to supply chain security, password and access management, and change management covering low matters. (As this is a public report and for reasons of IT/control sensitivity, we have provided specific details to the College separately).
Implication	There is a risk of system issues adversely impacting the control environment and/or financial statements.
Recommendation	We recommend that the specific IT points identified are addressed.
Management response	Agreed, areas to be reviewed and changes implemented where required. **Responsible officer:** Director of IT & Digital **Implementation date:** April 2024

2. NFI Exercise	**Low**
Observation	The most recent NFI exercise commenced in 2022, with matches received for investigation from January 2023. Matches require to be investigated by 30 September 2023 and the results recorded on the NFI system. The College faced delays following changes in staff during the year which resulted in no NFI matches being investigated and closed down in during 2023. In conjunction with Audit Scotland, an initial assessment was carried out of all outstanding matches where no high risk areas were identified. During 2022/23, NFI arrangements were not satisfactory. The College are undertaking appropriate training with Audit Scotland to ensure all those involved in the NFI process have an appropriate understanding of the process and requirements.
Implication	There is a risk that instances of fraud exist within the College's NFI data.
Recommendation	We recommend that the College focuses on improving their data submission timeliness and reviews all outstanding matches as a matter of urgency.
Management response	Agreed, areas to be reviewed and changes implemented where required. **Responsible officer:** Director of Finance & Procurement **Implementation date:** December 2023

3. Challenging work of an expert	Medium
Observation	We acknowledge College management sought input and guidance from a professional valuer to inform review of the 31 July 2023 asset carrying values, after a valuation exercise as at 31 July 2022. However, the response received and management challenge thereon to clarify the more specific meaning and implications for the 31 July 2023 position could have been more robust and particular to provide accounting evidence for the values/approach taken.
Implication	Although the last professional valuation was undertaken in 2021/22, the College has a duty to ensure that non-current assets are not materially misstated in between more comprehensive valuations. Challenging responses from experts could preclude a material misstatement.
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.
Management response	More robust discussion will be carried out with valuer in future years. **Responsible officer:** Director of Finance & Procurement **Implementation date:** July 2024

4. Outstanding Pension contributions	Low
Observation	There were two instances in our payroll testing where employer pension contributions were not deducted in the correct month. The employees identified in our testing had more than one role at the College and were members of more than one pension fund.
Implication	There is a risk that the College is not adhering to the rules of the pension scheme.
Recommendation	We recommend that the College monitors employer pension deductions and ensures deductions are processed in the correct period.
Management response	Review of procedure to be undertaken and amended. **Responsible officer:** Director of People Services **Implementation date:** 30 November 2023

Appendix 4: 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.	**Sufficient Audit Evidence**
Recommendation	Management should undertake a detailed review of all transactions and balances within the annual accounts to ensure only supported amounts are recognised.
Implementation date	**31 July 2022**
Complete	From our audit testing, we have identified that all transactions and balances within the annual accounts are supported by evidence. Point cleared.

2.	**Purchase order documentation**
Recommendation	Procedures should be developed to include greater documentation for when variances are identified between the expenditure purchase order and invoice amount. Point cleared.
Implementation date	**31 July 2022**
Complete	We are satisfied that Borders College has greater documentation in place for purchases orders. There are policies and procedures in place to keep an audit trail.

3.	Communication of Changes in Voluntary Severance Schemes
Recommendation	We recommend that contingency planning is undertaken to ensure all documentation and correspondence with SFC in relation to voluntary severance schemes can be accessed and is retained, even when a key member of the team leaves the College.
Implementation date	**31 July 2022**
Complete	We are satisfied that all documentation and correspondence with SFC is accessible and retained. Point cleared.

4.	Journals posted with no description
Recommendation	While our audit work did not identify any indications of incorrect or fraudulent journal postings, we recommend that the College reviews their journal processes to ensure journals cannot be posted without descriptions.
Implementation date	**31 July 2022**
Complete	We are satisfied that no journals were posted in 2022/23 without a description. Point cleared.

5.	Remuneration Report and accounts
Recommendation	We recommend that greater due care is taken when producing the Remuneration Report within the annual accounts, and a clear timetable is produced and observed to make accounts available in line with agreed and organised deadlines.
Implementation date	**31 July 2022**
Complete	The annual accounts and Remuneration Report were provided ahead of the audit commencing. There were no material errors within the Remuneration Report. Point cleared.

6.	Password Controls
Recommendation	Management should ensure that a strong password policy is enforced.
Implementation date	**31 July 2022**
Complete	As part of the 2022/23 audit, our Technology Risk team undertook some IT general controls testing. Password controls was raised as an advisory point with no necessary action to be taken. Point cleared.

7.	Opening Balances Processes
Recommendation	We recommend that procedures for reversing the prior year closing balances from the Income and Expenditure codes should be reviewed to identify whether the level of manual intervention can be reduced.
Implementation date	**31 July 2022**
Complete	We were provided with sufficient opening balances, the level of manual intervention for income and expenditure codes has been sufficiently reduced. Point cleared.

8.	Accruals
Recommendation	Management should undertake a detailed review of accruals to ensure only reasonable, relevant and supported accruals are recognised.
Implementation date	**Initial - July 2021** **Current – July 2023**
Complete	From our audit testing, all accruals were supported by satisfactory evidence. Point cleared.

9.	**Revaluation reserve records**
Recommendation	Asset registers should be updated to record and maintain the revaluation reserve balance against each individual asset where appropriate.
Implementation date	**Initial - July 2020** **Current – July 2023**
Complete	Sufficient working papers, including records of each individual asset, were provided during the year to support the new estimation technique used in the transfer calculation. Point cleared.

10.	**Year-end preparedness**
Recommendation	The College should ensure that a timetable is in place for year-end close down of the ledger and preparation of the financial statements. This should also aid in sufficient time being allocated to ensure all disclosures are in line with best practice.
Implementation date	**Initial - June 2019** **Current – July 2023**
Complete	We were provided with a high quality set of accounts and working papers ahead of the audit commencing. Point cleared.