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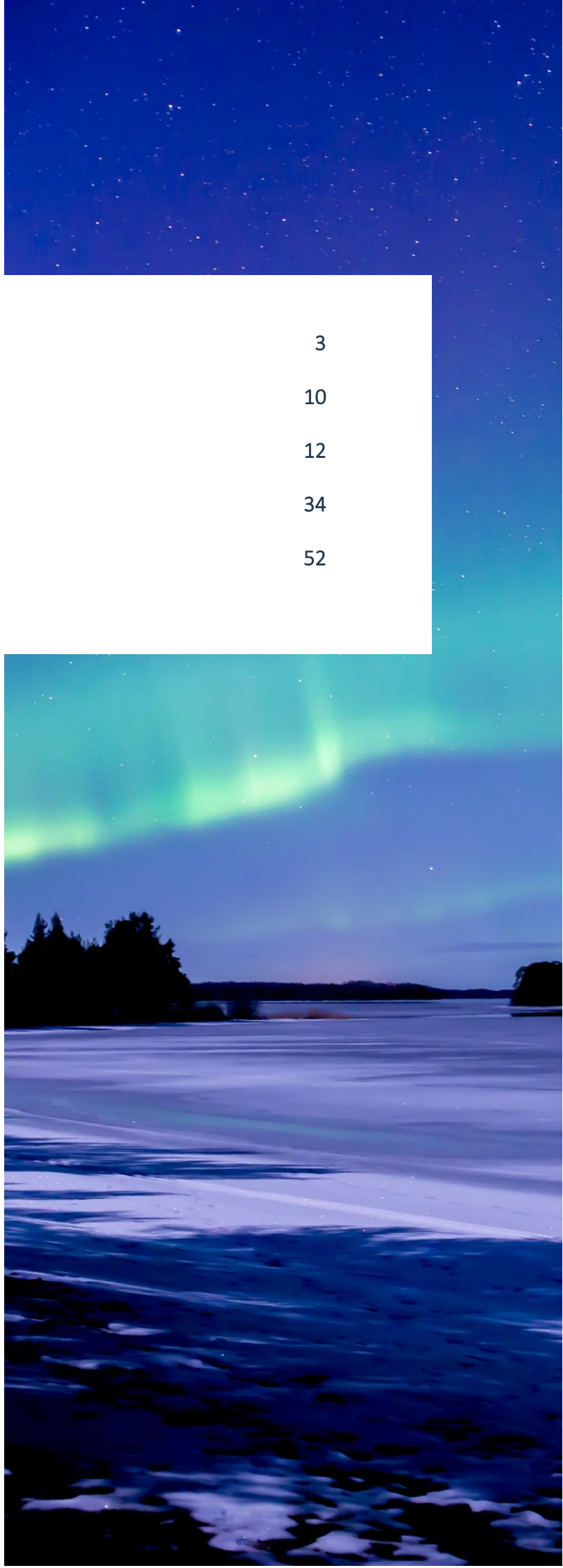
Borders College

2024/25 Annual Audit Report to the Board of
Management and the Auditor General for Scotland

December 2025

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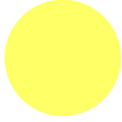
Key messages


Financial statements audit


Audit opinion	Our independent auditor's report is unqualified in all regards.
Audit approach	<p>Our audit approach has been based on gaining an understanding of the College's control environment and has been risk based. This included:</p> <ul style="list-style-type: none"> • An evaluation of the College's internal control environment, including the IT systems and controls; and • Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to our key audit risks. <p>We have not altered our audit plan following receipt of the draft financial statements.</p>
Key audit findings	<p>The College had good administrative processes in place to prepare the annual accounts and the supporting working papers.</p> <p>We obtained adequate evidence in relation to the significant audit risks identified in our audit plan.</p> <p>The accounting policies used to prepare the financial statements are considered appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p>
Audit adjustments	<p>Two adjustments have been made to the draft accounts through the course of the audit. These were:</p> <ul style="list-style-type: none"> • Overstatement of cost and accumulated depreciation of property, plant and equipment due to fully depreciated assets no longer in use by the College remaining on the fixed asset register.

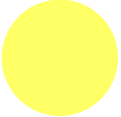
	<ul style="list-style-type: none">• Reclassification of the dilapidations balance from accruals to provisions. <p>Two misstatements were also identified which have not been adjusted within the financial statements:</p> <ul style="list-style-type: none">• Release of accruals per extrapolated error identified in accruals testing.• Release of accrued income per extrapolated error identified in accrued income testing. <p>Details of the adjusted and unadjusted misstatements are included at Appendix 2.</p>
Internal controls	<p>The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.</p> <p>Our audit is, therefore, not designed to identify all control weaknesses.</p> <p>No material weaknesses or significant deficiencies were noted.</p>

Wider scope of public audit

<p>Financial Management</p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>Auditor judgement</p> <p>Risks exist to the achievement of operational objectives</p> 
	<p>The College has demonstrated overall sound financial management but faces unprecedented and continuing challenges resulting from the current levels of budget pressure, inflation (particularly in relation to utilities) and related funding levels from SFC.</p> <p>The College reports an operating surplus of £1.587million. This improved position compared to 2023/24 primarily reflects:</p> <ul style="list-style-type: none"> • Additional income received from release of Hawick’s deferred capital grants due to the campus being due to be sold in the coming months. • Additional funding received from SFC to fund the pension uplift and to support the increase in national insurance rates. <p>Audit Scotland’s ‘Scotland’s Colleges 2025’ continues to report increasing concerns around cash balances and the liquidity of the College sector and SFC’s report on Financial Sustainability of Colleges in Scotland 2022/23 to 2027/28 noted that the sector’s cash reserves are forecast to further deteriorate with a negative position forecast by the end of 2027/28.</p> <p>We are satisfied that the College’s cash balance at 31 July 2025 is within the SFC’s expectation. However, we will continue to monitor the cash position of the College and the financial flexibility which this allows the College to have in periods of significant financial challenge.</p>

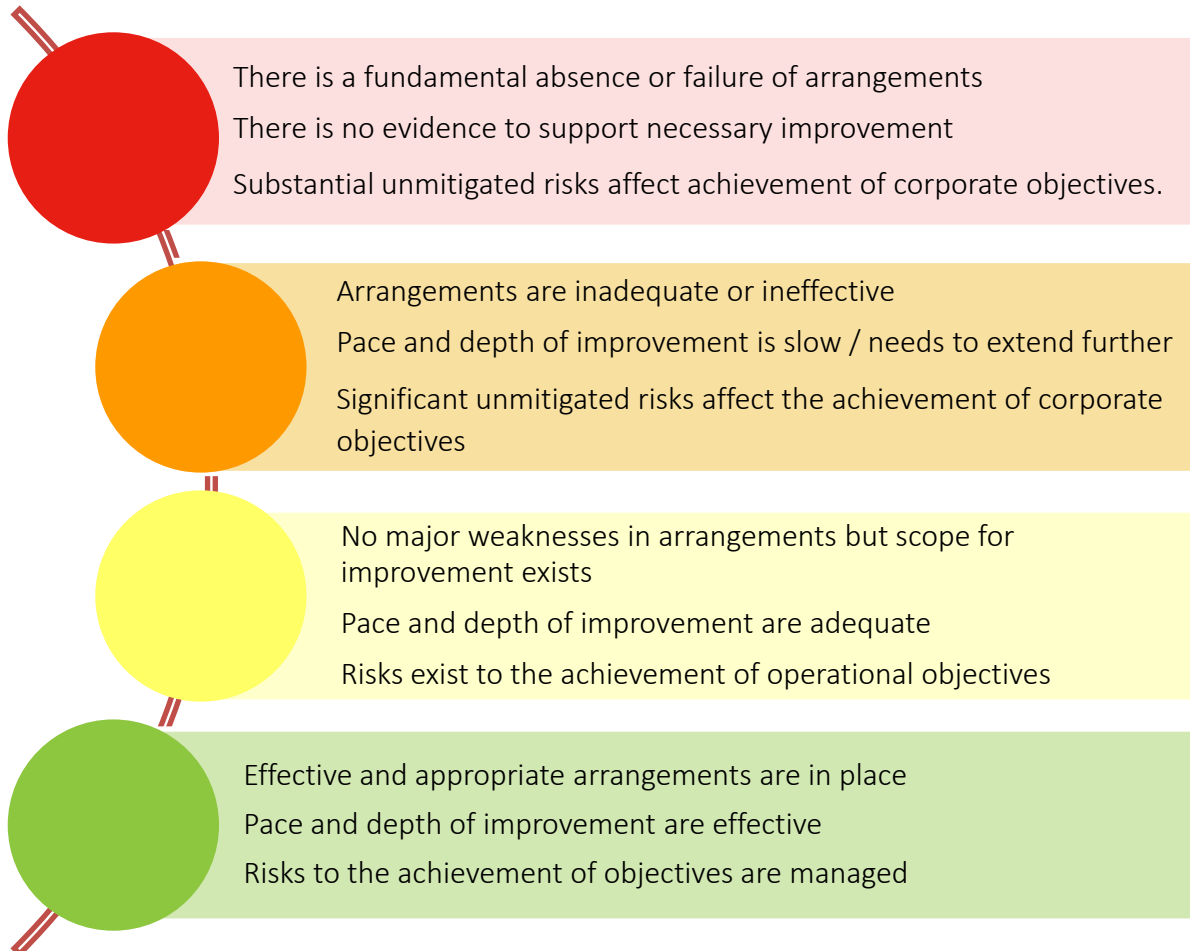
Financial Sustainability Financial sustainability looks forward to the medium and longer term to consider whether the College is planning effectively to continue to deliver its services and the way in which they should be delivered.	Auditor judgement	
	Significant unmitigated risks affect achievement 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 Financial Forecast Return (FFR) which anticipates operating and adjusted operating deficits for 2025/26 to 2027/28.	
	The College developed its Statement of Strategic Intent and Delivering a Sustainable Academic and Business Model 2024-27 plan as its response to the increasing level of financial challenge that both the College and Further Education sector are faced with.	
	The College has recognised that medium to longer term actions held within these plans carry an increased level of risk and are expected to have a negative impact on the quality of the College's service provision. Without additional support from SFC there is a risk that the College will become unsustainable after 2026/27.	
	The College will continue to face significant 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 2025/26 and beyond, and this requires continuing careful management and oversight.	

<p>Vision, Leadership and Governance</p> <p>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.</p>	<p>Auditor judgement</p> <p>Effective and appropriate arrangements are in place</p>  <hr/> <p>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.</p> <p>Our assessment has been informed by a review of the corporate governance arrangements in place and the information provided to the Board and Committees.</p> <p>The College’s newest iteration of its strategy, Vision 2030, was launched at the start to the 2025/26 academic year. We are satisfied that appropriate arrangements are in place to oversee the implementation and delivery of Vision 2030.</p>
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<p>Use of Resources to Improve Outcomes</p> <p>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.</p>	<p>Auditor judgement</p> <p>Risks exist to achievement of operational objectives</p>  <hr/> <p>The College has appropriate performance management processes in place that support monitoring and scrutinising performance.</p> <p>Overall, the College demonstrated an improvement in student outcomes compared to 2023/24 performance across all levels and modes of study but there is a risk that the scale of savings required to enable the College to achieve a financially sustainable position alongside the significant financial pressures that the College is facing may impact on its ability to deliver curriculum activity or support students and staff in future years. This presents a risk of deterioration in the College's performance and it is important that the College continues to monitor and assess its ability to offer quality provision of education.</p>
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Definitions

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



Introduction

Scope of audit

The annual external audit comprises the audit of the financial statements and other reports within the annual report and accounts, and the wider-scope audit responsibilities set out in Audit Scotland's Code of Audit Practice. [Code of Audit Practice 2021 | Audit Scotland](#)

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

Responsibilities

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

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

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

Auditor independence

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

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

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

Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In

this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.

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

Openness and transparency

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

Financial statements audit

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing.</p> <p>Our findings / conclusions to inform our opinion are set out in this section of our annual audit report.</p>	<p>The annual report and accounts were considered by the Audit and Risk Committee on 2 December 2025 and approved by the Board on 11 December 2025.</p> <p>Our independent auditor's report is unqualified.</p>
Going concern basis of accounting	<p>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.</p> <p>We assess whether there are plans to discontinue or privatise the College's functions.</p> <p>Our wider scope audit work considers the financial sustainability of the College.</p>	<p>We reviewed the financial forecasts for 2025/26. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the College will have continued provision of service for at least 12 months from the signing date. Our audit opinion is therefore unqualified in this respect.</p>
Regularity of income and expenditure	<p>We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.</p>	<p>We have not identified any instances of irregular activity.</p> <p>In our opinion, in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with applicable</p>

Opinion	Basis for opinion	Conclusions
		enactments and guidance issued by the Scottish Ministers.
<p>Opinions prescribed by the Auditor General for Scotland:</p> <ul style="list-style-type: none"> • The audited part of the Remuneration and Staff Report • Performance Report • Governance Statement 	<p>We plan and perform audit procedures to gain assurance that the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement are prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers.</p>	<p>The annual report contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that:</p> <ul style="list-style-type: none"> • the audited parts of the Remuneration and Staff Report have been properly prepared. • the information given in the performance report is consistent with the financial statements and has been properly prepared. • the information given in the Governance Statement is consistent with the financial statements and our understanding of the organisation gained through our audit.

Opinion	Basis for opinion	Conclusions
Matters reported by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> • adequate accounting records have not been kept; or • the financial statements and the audited parts of the Remuneration and Staff Report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit; or • there has been a failure to achieve a prescribed financial objective. 	We have no matters to report.

An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Risk Committee in May 2025. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk (the significant risk areas). Planning is a continuous process, and our audit plan is subject to review during the course of the audit to take account of developments that arise.

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

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

Quality indicators

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

Metric	Grading (Mature / developing / significant improvement required)	Commentary
Quality and timeliness of draft financial statements	Mature	We received the unaudited financial statements of a good standard in line with our audit timetable. Revisions were provided promptly where required.
Quality of working papers provided and adherence to timetable	Mature	We received working papers of a good standard in line with our audit timetable. Further information was provided promptly where required.
Timing and quality of key accounting judgements	Mature	We did not identify any issues with the timing and quality of key accounting judgements.
Access to finance team and other key personnel	Mature	The College Finance team were available throughout audit and responded quickly to queries raised by audit team.
Quality and timeliness of the <ul style="list-style-type: none"> • audited part of the Remuneration and Staff Report • Performance Report • Governance Statement 	Mature	We identified disclosure changes in relation to the Remuneration and Staff Report, Governance Statement and Performance Report. See Appendix 2 for further details.

Metric	Grading (Mature / developing / significant improvement required)	Commentary
As well as the quality and timeliness of supporting working papers for those statements.		
Volume and magnitude of identified errors	Mature	We identified two audit adjustments, which have nil impact on the financial position, and two unadjusted misstatements in year. The unadjusted misstatements were not material to the College collectively. This represents a slight increase in errors from the previous year.

Significant risk areas and key audit matters

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

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

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

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

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

Risk area	Financial statement / Assertion level risk	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
Management override of controls	Financial statement	Yes	Assess design & implementation	Low	From our work we found no evidence of material fraud or error through management override of controls.
Fraud in revenue recognition	Assertion level	Yes	Assess design & implementation	Low	From our work we found no indication of fraud through revenue recognition.
Fraud in non-pay expenditure recognition	Assertion level	Yes	Assess design & implementation	Low	From our work we found no indication of fraud through non-pay expenditure recognition.
Valuation of land and buildings	Assertion level	No	Assess design & implementation	High	From our work we have obtained assurance that the valuation of land and buildings in the accounts are free of material misstatement.

Risk area	Financial statement / Assertion level risk	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
Pension asset / liability	Assertion level	No	Assess design & implementation	High	From our work we have obtained assurance that the pension asset/liability in the accounts are free of material misstatement.
Provision for Netherdale Lifecycle Costs	Assertion level	No	Assess design & implementation	High	From our work we have obtained assurance that the valuation of the provision for Netherdale Lifecycle Costs is free from material misstatement.

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
<p>Significant risk description</p>	<p>Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.</p> <p>Specific areas of potential risk include manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Risk of material misstatement: Very High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgement</p> <p>There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Documented our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals. • Analysed the journals listing and determining the criteria for selecting high risk and/or unusual journals. • Tested high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting

Risk area	Management override of controls
	<p>documentation for appropriateness, corroboration and to ensure approval has been undertaken in line with the College's journals policy.</p> <ul style="list-style-type: none"> • Gained an understanding of the key accounting estimates and critical judgements made by management. We will challenge assumptions and consider for reasonableness and indicators of bias which could result in material misstatement due to fraud. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Key observations	<p>We did not identify any indication of management override of controls. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.</p>

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

Key risk area	Fraud in revenue recognition
<p>Significant risk description</p>	<p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed risk in ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements).</p> <p>The presumption is that the College could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.</p> <p>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.</p> <p>In respect of the College's income for Scottish Funding Council (SFC) grant funding, however, we do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate these revenue streams. The risk of fraud in relation to revenue recognition is however present in all other revenue streams.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Inherent risk of material misstatement:</p> <p>Revenue (occurrence and accuracy): High</p> <p>Receivables (existence): High</p>

Key risk area	Fraud in revenue recognition
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</p> <p>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.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Documented our understanding of the College’s systems for income to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements. • Evaluated the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems. • Obtained evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Substantively tested material income streams using analytical procedures and sample testing of transactions recognised for the year.
<p>Key observations</p>	<p>We identified no significant issues in testing income and receivables. We gained reasonable assurance over the occurrence of income and existence of receivables recorded in the accounts and are satisfied that income is fairly stated. We identified no indication of fraud in revenue recognition.</p>

Key risk area	Fraud in non-pay expenditure recognition
<p>Significant risk description</p>	<p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of expenditure around the year end leading to a material misstatement in the reported financial position.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Inherent risk of material misstatement:</p> <p>Non-pay expenditure (completeness): High</p> <p>Accruals (completeness): High</p>

Key risk area	Fraud in non-pay expenditure recognition
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals and expenditure around the year end.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Documented our understanding of the College’s systems for expenditure to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements. • Evaluated the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems. • Obtained evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Substantively tested material expenditure streams using analytical procedures and sample testing of transactions recognised for the year. • Reviewed accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.
<p>Key observations</p>	<p>We identified no significant issues in testing expenditure and accruals. We have gained reasonable assurance over the completeness of expenditure and accruals. We have identified no indication of fraud in recognition of expenditure</p>

Key risk area	Valuation of land and buildings (key accounting estimate)
<p>Significant risk description</p>	<p>The College held land and buildings with a net book value of £30.735million at 31 July 2024, with full external valuations last undertaken as at 31 July 2022 and an external desktop valuation undertaken as at 31 March 2023.</p> <p>The valuations involve a wide range of assumptions and source data and are therefore sensitive to changes in market conditions. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of valuers and the methods, assumptions and source data underlying the fair value estimates.</p> <p>These valuations represent a key accounting estimate made by management within the financial statements due to the size of the values involved, the subjectivity of the measurements and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of land and buildings as a significant risk.</p> <p>Inherent risk of material misstatement:</p> <p>Land and Buildings (valuation): Very High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</p> <p>Colleges are required to ensure fixed assets are held at a carrying amount that does not differ materially from the current value at 31 July, alongside appropriate additional disclosures.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Evaluated management processes and assumptions for the calculation of the estimates, the instructions issued to the valuation experts and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Considered the basis on which the valuation is carried out and challenging the key assumptions applied. • Evaluated the reasonableness of the valuation movements for assets revalued during the year, with reference to market data. • For unusual or unexpected valuation movements, tested the information used by the valuer to ensure it is complete and consistent with our understanding.

Key risk area	Valuation of land and buildings (key accounting estimate)
	<ul style="list-style-type: none"> Ensured revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct.
<p>Key observations</p>	<p>The College instructed their external valuers (Ryden) to carry out a desktop valuation of its estate as at 31 July 2025. We have gained assurance that the carrying value of the College’s estate in the financial statements is in line with the reports received from Ryden.</p> <p>We evaluated the competence, objectivity and capability of management’s expert in line with the requirements of ISA (UK) 500 and concluded that use of the expert was appropriate. We confirmed that the basis of valuation for assets is appropriate based on the usage and reviewed the reasonableness of valuation assumptions applied. Overall, the valuation movements were in line with supporting evidence.</p> <p>We reviewed the key estimates and judgements that management made in respect to the valuation of land and buildings for any indication of bias and assessed whether the judgements used by management are reasonable. We concluded that estimates and judgements are balanced.</p> <p>Our audit work has not identified any issues in respect of the valuation of land and buildings as at 31 July 2025.</p>

Key risk area	Pension valuation (key accounting estimate)
<p>Significant risk description</p>	<p>An actuarial estimate of the pension fund asset/liability is calculated on an annual basis and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities.</p> <p>The calculations involve a number of key assumptions, such as discount rates and inflation and local factors such as mortality rates and expected pay rises. The estimates are highly sensitive to changes in these assumptions and the calculation of any asset ceiling when determining the value of a pension asset. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external experts (the actuary) and the methods, assumptions and source data underlying the estimates.</p> <p>This represents a key accounting estimate made by management within the financial statements due to the size of the values involved, the subjectivity of the measurement and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of the net pension liability/asset as a significant risk.</p> <p>Inherent risk of material misstatement:</p> <p>Pension net asset or liability (valuation): High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</p> <p>A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Evaluated management’s process for the calculation of the estimate, the instructions issued to management’s expert (the actuary) and the scope of their work. • Evaluated the competence, capabilities and objectivity of the actuary.

Key risk area	Pension valuation (key accounting estimate)
	<ul style="list-style-type: none"> • Reviewed the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate. • Evaluated whether any asset ceiling was appropriately considered when determining the value of any pension asset included in the financial statements. • Ensured pension valuation movements for the year and related disclosures have been correctly.
<p>Key observations</p>	<p>We are satisfied that we have obtained reasonable assurance over the disclosures in the financial statements relating to the reported financial position.</p> <p>Accounting standards require the College to review the pension surplus and only recognise the lower of the surplus or an ‘asset ceiling’. The pension asset ceiling for this year capped the asset value to nil.</p> <p>We reviewed the reasonableness of those assumptions used in the calculation against other college actuaries and other observable data, with no issues identified. In addition, we reviewed the information in the actuarial report for completeness and accuracy against data sources including pension fund data.</p> <p>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.</p>

Key risk area	Provision for Netherdale Lifecycle Costs (key accounting estimate)
<p>Significant risk description</p>	<p>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.</p> <p>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.</p> <p>Inherent risk of material misstatement:</p> <p>Netherdale Provision (valuation): High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</p> <p>There is a high level of estimation required in determining the value of the College’s obligation to maintain the Netherdale campus.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Considered if there has been a material change in circumstances since the last assessment was performed to ensure the current provision remains an accurate reflection of the College’s obligation as at 31 July 2025. • Reviewed the method and underlying assumptions used to carry out the valuation to ensure these are appropriate.
<p>Key observations</p>	<p>We are satisfied that the amount recognised as a provision as at 31 July 2025 appropriately reflects the expected level of required lifecycle costs. Maintenance spend is monitored by the Campus Management Committee and there has been no indication of significant changes in the campus and related shared arrangements since the last independent Quantity Surveyor assessment in 2018/19.</p>

Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor’s report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the College and the needs of users. We reviewed our assessment of materiality throughout the audit.

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

Our initial assessment of materiality for the College’s financial statements was £311,000. On receipt of the 2024/25 unaudited annual accounts, we reassessed materiality and updated this to £329,000. We consider that our updated assessment has remained appropriate throughout our audit.

	College £
Overall materiality for the financial statements	329,000
Performance materiality (75% of materiality)	246,750
Trivial threshold (5% of materiality)	16,450

Materiality

Our assessment is made with reference to the College’s gross expenditure. We consider this to be the principal consideration for users of the financial statements when assessing financial performance.

Our assessment of materiality equates to approximately 2% of gross expenditure as disclosed in the 2024/25 unaudited annual accounts. In performing our audit, we apply a lower level of materiality to the audit of the Remuneration & Staff Report and Related Parties disclosures.

For the Remuneration & Staff Report we consider any errors which result in a movement between the relevant bandings on the disclosure table to be material.

For Related Party transactions, in line with the standards, we consider the significance of the transaction with regard to both the College and

	<p>the Counter party, the smaller of which drives materiality considerations on a transaction by transaction basis.</p>
<p>Performance materiality</p>	<p>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.</p> <p>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.</p>
<p>Trivial misstatements</p>	<p>Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>

Audit differences

Audit differences identified during the audit are detailed in Appendix 2.

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

Internal controls

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

Follow up of prior year recommendations

We followed up on progress in implementing actions raised in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 4.

Other communications

Other areas of focus

Area of focus	Audit findings and conclusion
Significant matters on which there was disagreement with management	There were no significant matters on which there was disagreement with management.
Significant management judgements which required additional audit work and / or where there was disagreement over the judgement and / or where the judgement is significant enough that we are required to report it to those charged with governance before they consider their approval of the accounts	There were no significant management judgements which required additional audit work, where there was disagreement over the judgement or where the judgement is significant enough that requires reporting.
Prior year adjustments identified	There were no prior year adjustments identified.
<p>Concerns identified in the following:</p> <ul style="list-style-type: none"> • Consultation by management with other accountants on accounting or auditing matters • Matters significant to the oversight of the financial reporting process • Adjustments / transactions identified as having been made to meet an agreed system position / target 	No concerns were identified in relation to these areas.

Accounting policies

The accounting policies used in preparing the financial statements are unchanged from the previous year.

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 financial statements, are in line with the FE SORP and are considered appropriate.

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

Key judgements and estimates

As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements.

Consideration was given to asset valuations, impairment, depreciation and amortisation rates, pension asset/ liability, provisions and accruals. Other than asset valuation, pension asset / liability and valuation of the Netherdale provision we have not determined the accounting estimates to be significant. See the section above on "Significant risks at the assertion level for classes of transaction, account balances and disclosures" for detailed findings in relation to key accounting estimates.

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

Fraud and suspected fraud

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

Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

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

Written representations

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

Related parties

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

Confirmations from third parties

All requested third party confirmations have been received.

Wider scope of public audit

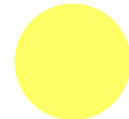
Public sector audit is planned and undertaken from a wider perspective than in the private sector. The wider-scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Auditor judgement

Risks exist to the achievement of operational objectives



Financial performance 2024/25

The College reported a surplus before other gains and losses of £1.587million for the year ended 31 July 2025, equating to approximately 9% of the College's total income. This represents an improved position compared to 2023/24 and primarily reflects:

- Additional income received from release of Hawick's deferred capital grants due to the campus being due to be sold in the coming months.
- Additional funding received from SFC to fund the pension uplift and to support the increase in national insurance rates.

Adjusting for non-cash transactions per SFC directions, such as depreciation (£1.673million), the net charge arising from the pension valuation (£0.058million), job evaluation costs not matched by revenue (£0.233million), non-government capital grants (£0.200) and revenue funding allocated to loan payments (£0.252million), the College shows an "adjusted" operating deficit of £0.363million (2023/24: surplus of £0.065million).

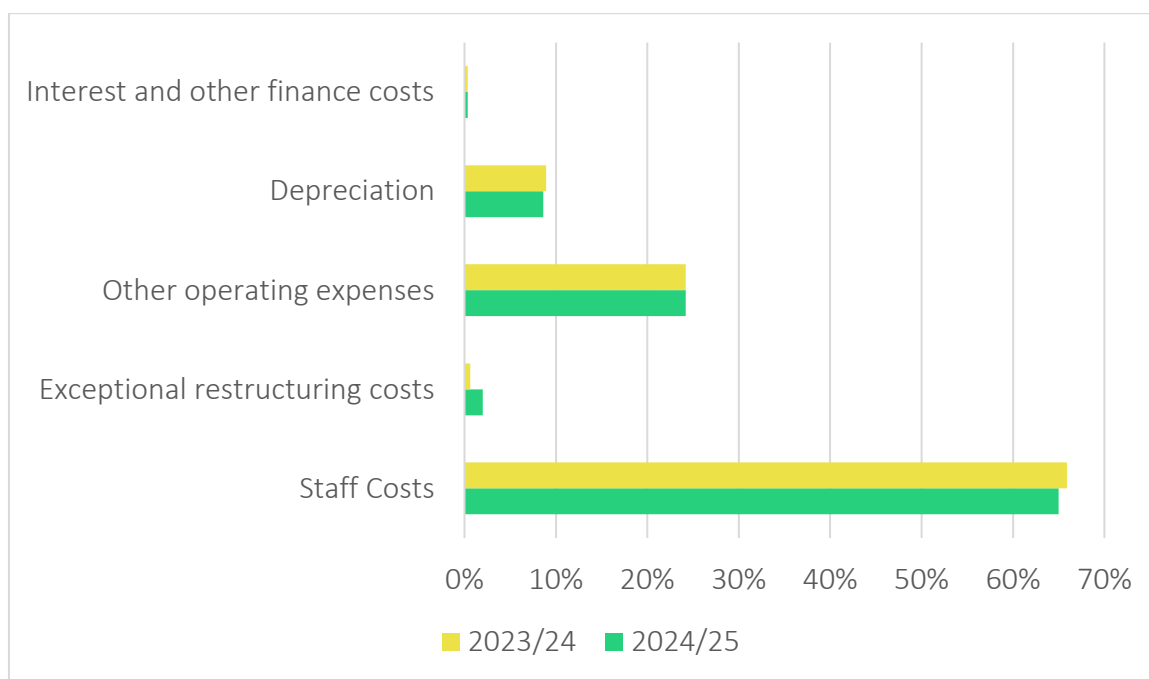
The College set an ambitious savings target of £0.155million for 2024/25. This was delivered in full, a notable achievement in a year where the College faced such financial uncertainty.

The College's main source of income continues to be grant funding from the SFC (67% of total income in 2024/25). This position is consistent with the previous year due to there being no increase in the College's credit target and therefore associated funding, despite an increase in demand to study at the College.

As detailed in exhibit 1, staff costs continue to be the highest area of spend for the College accounting for 65% (66% in 2023/24) of total expenditure. This position is consistent with the previous year and reflects the FRS 102 pension adjustment, offset by small underspends across all other staff cost areas.

The cost of voluntary severance in the year was higher than last year at £0.118million (£0.076million 2022/23) and 6 members of staff took advantage of the scheme in 2024/25. This represented around 3% of total headcount. The College’s voluntary severance programme is expected to continue into future years as a key way to achieve savings in expenditure. Further detail is included in the financial sustainability section of this report. This includes information on key mechanisms that the College will put in place to achieve savings on staff costs.

Exhibit 1 – Key Expenditure items, two year comparison



Source: Annual Accounts 24/25 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.

A cash days target is useful to ensure that funds are optimised and not drawn down in advance of need where the College monitors this indicator at each Board meeting. The cash days for 2024/25 was 23 days which was lower than the 2024/25 budget position but higher than the SFC expectation of retaining around 15 days of cash at any time.

Audit Scotland's 'Scotland's Colleges 2025' continues to report increasing concerns around cash balances and the liquidity of the College sector and SFC's Financial Sustainability of Colleges in Scotland 2022/23 to 2027/28 report noted that the sector's cash reserves are forecast to further deteriorate with a negative position forecast by the end of 2027/28. We are satisfied that the College's cash balance at 31 July 2025 is within the SFC's expectation. However, we will continue to monitor the cash position of the College and the financial flexibility which this allows the College to have in periods of significant financial challenge.

Systems of internal control

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

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

Prevention and detection of fraud and irregularity

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

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

National fraud initiative

The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error. The most recent NFI exercise commenced in 2024, with matches received for investigation in early 2025.

The College engages well with the NFI exercise and we have concluded that its arrangements with respect to NFI are satisfactory. The College uploaded all relevant data for the 2024 NFI exercise by the timescale of 31 October 2024 and has reviewed and investigated all matches received.

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 mitigated risks affect achievement of corporate objectives



Significant audit risk

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

Financial sustainability (extract from 2024/25 External Audit Plan)

The College continues to face significant financial challenges, operating within tight financial parameters, and with cognisance of the national economic outlook.

The College submitted its Financial Forecast Return (FFR) to SFC showing adjusted operating deficits for 2023/24 to 2026/27. The College has commenced several key elements of work to identify efficiencies and make savings where possible. These initiatives include continuation of the voluntary severance scheme, a review of organisational design, curriculum review reductions and estates planning.

Heriot-Watt University have notified their intention to exit the shared campus agreement in October 2026. The College is currently working through options to mitigate the risk of loss of income from Heriot-Watt University.

The College will continue to face challenges in maintaining a balanced financial position the ability to develop and maintain core services in a sustainable manner remains at significant risk and requires continuing careful management and oversight.

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

2025/26 Financial Plan

The Board approved the 2025/26 budget in June 2025, in line with agreed timescales.

Due to the significant financial pressures facing the College sector including pay and non-pay inflationary pressures and flat cash funding, the College developed several budget scenarios as part of the 2025/26 budget setting process. The financial scenarios considered were optimistic, realistic and pessimistic. This included consideration of core and non-core SFC funding, estate changes and increasing staffing costs. The assumptions within the realistic scenario were applied to the budget approved by the Board.

The 2025/26 budget projects an operating deficit of £0.856million. Adjusting for non-cash items such as notional interest and depreciation gives a forecast adjusted operating deficit of £0.517million.

Budgeted income of £15.107million is 20% lower than the 2024/25 actual income. This is due to one off non-recurring grant allocations being provided to the College in 2024/25 including SFC allocations for mental health transition fund and to cover lecturer's pension costs and additional income received from the release of Hawick's deferred capital grants due to the campus being due to be sold in the coming months.

Budgeted expenditure of £15.963million is 3% lower than 2024/25 actual expenditure. This is due to an increase in voluntary severance costs and generated savings from staff restructures in 2024/25.

In 2023/24, the SFC funding allocations saw a 10% reduction in education delivery which translated into the same reduction for the College's credit target. In both 2024/25 and 2025/26 the SFC have kept College credit targets at the same level to allow for a period of stability to the sector. The College's credit target for 2025/26 therefore remains at 23,891.

The College has recognised that a continuing key challenge to its financial sustainability is being able to meet the skills demand for those students and employers where demand to attend the College is higher than the credit target provided by SFC. The College is currently engaging with SFC to build a business case to support an increase in credit activity by 10%.

Staff Costs

Staff costs continue to be a significant challenge for the College and the 2024-25 to 2027-28 FFR has been prepared based on reduction in staffing numbers in 2025/26, as detailed in exhibit 2. This represents around 2.5% of 2024/25 total headcount. There is no impact on the curriculum from the removal of these posts.

Exhibit 2: 2025/26 Annual Staffing Efficiencies

	2025/26 FTE
FTE Staff reduction- vacancy management	1
FTE Staff reduction- voluntary severance	4
FTE Staff reduction- compulsory redundancy	0
Total Staff reduction	5

Source: 2024-25 to 2027-28 FFR – June 2025

As detailed above, the College’s voluntary severance programme is expected to continue into 2025/26 as a key way to achieve savings in staff costs for future years.

The College has acknowledged that current staffing costs are not sustainable and are also actively looking to reduce staff costs. The College published its Statement of Strategic Intent in May 2024 and developed a supporting Strategic Implementation Plan where one of the work streams for delivery of savings and redesign is the College’s workforce planning. Further detail is included in the medium term financial planning section of this report.

Capital Expenditure

The College has received a 2025/26 allocation of £0.424million for capital maintenance. This represents a 5% increase from the 2024/25 allocation.

The capital budget setting process for 2025/26 commenced in November 2024 with all departments of the college invited to submit outline ideas and bids to the Executive team. The submitted business cases were required to demonstrate how the proposal met the strategic objectives of the College and to include any revenue consequences including savings and additional costs. All revenue consequences of the final capital programme have been integrated into the 2025/26 budget.

Exhibit 3 details the recommended capital allocation for the next 3 years based on the assumption that capital allocation from the SFC will remain flat over the period.

Exhibit 3: 2025/26 Capital Budget

	2025/26 £'000	2026/27 £'000	2027/28 £'000
Life cycle and maintenance of assets	97	93	104
Mini buses	46	45	45
Finance System Upgrades	80	-	-
Student Funding system replacement	32	-	-
Mechanics kit	29	-	-
Digital signage	43	-	-
Job evaluation system	-	10	-
Balance allocated to Campus Re-Development	97	276	275
Total Capital Plan	424	424	424
Funding from SFC	(424)	(424)	(424)
Total capital funding	(424)	(424)	(424)

Source: 2025/26 Budget Setting 2025/26 and Financial Forecast Return – June 2025

The College is also seeking external funding from the Borderlands Inclusive Growth Deal which would be utilised to develop a Net Zero Accelerator Hub and Human Health Lab. The outcome of this capital funding bid has not yet been received by the College.

Medium Term Financial Planning

The College has prepared a medium term financial forecast as part of the SFC's FFR process. The FFR was approved by the Board in June 2025.

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

Assumptions include:

- SFC core grant funding and related credit targets should be based on the final 2025/26 funding allocations.
- Student support funding requirements will be fully met.
- SFC capital maintenance funding should be based on the final 2025/26 funding allocations.
- Staff costs will reflect: agreed cost of living increases, public sector pay policy and any known or expected increases in employer pension contribution rates.
- Funding will not be provided for severance costs.

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

The FFR anticipates operating and adjusted operating deficits for 2025/26 to 2027/28. This is shown below in exhibit 4.

Exhibit 4- Adjusted Operating Position 2025/26-2027/28

	2025/26 £'000	2026/27 £'000	2027/28 £'000
Total income	15,107	13,972	13,688
Total expenditure	(15,963)	(15,481)	(15,525)
Operating surplus / (deficit)	(856)	(1,509)	(1,837)
Adjusted operating surplus / (deficit)	(517)	(918)	(1,206)

Source: Financial Forecast Return 2025/26 to 2027/28

The Scottish Borders Campus in Galashiels is currently shared with Heriot-Watt University, under an agreement in place since 2009. That agreement ends in 2026 and the University has indicated it will not renew the agreement or any of the shared services currently purchased. This is expected to result in a reduction in income to the College of £0.445million in 2026/27, rising to £0.460million in 2027/28.

While creating significant financial challenges for the College, the decision by Heriot-Watt University to retract from shared space and services has also been recognised by the College as an opportunity to increase the efficiency of its estate specifically through moving Hawick's activity to the Galashiels campus once Hawick is sold in 2025/26.

Key risks and uncertainties facing the College

Audit Scotland recently reported that the College sector continues to operate in an extremely difficult financial landscape. It was noted that there was a 20% real-terms reduction in funding for colleges between 2021/22 and 2025/26 and, without changes to baseline funding, Colleges will have to deliver even less to remain sustainable at a time when demand

from students and employers is not being met. College funding is also dependent on credit delivery, which continues to present a risk that Colleges will prioritise courses that are less expensive to deliver over those that meet local need. Due to continuing financial pressures, colleges will have to align themselves with wider public service reform activity and plan for the demands of the future rather than try to deliver more of the same with decreasing resources.

The College is heavily reliant on SFC funding which currently represents c.67% of the College's total income. As such, a small movement in grant funding has a significant impact on the College's financial position.

Due to the increasing level of financial challenge that both the College and the Further Education sector are facing, the College published its Statement of Strategic Intent and a supporting Strategic Implementation Plan in May 2024. This represents the College's response to the unprecedented challenges being faced and the Statement of Strategic Intent presents the key strategic drivers and the College's proposed response to them.

The Strategic Implementation Plan focuses on priorities within four key themes which are:

- Curriculum Planning and Design
- Estates and Infrastructure Planning
- Financial Planning
- Workforce Planning.

The progress made in delivering the Strategic Implementation Plan is reported to each Board meeting. The latest report presented to the June 2025 Board meeting highlighted that good progress is being made in all areas of the plan. However, this work represents an external risk to the College's financial sustainability if the expected benefits identified are not realised.

The Board also approved the College's Delivering a Sustainable Academic and Business Model 2024-27 plan in May 2025. This Plan builds on previous work and discussions with the SFC to establish a sustainable operating position for Borders College, taking into consideration a number of external factors including restricted public funding and the withdrawal of Heriot-Watt University from Scottish Borders Campus.

The plan takes forward the principles agreed in the College's Statement of Strategic Intent and supporting Strategic Implementation Plan alongside defining further agreed actions to ensure the sustainability of further education in the College. The College is planning to undertake a further review of the plan once SFC budget allocations have been received to ensure the plan continues to remain fit for purpose.

The Plan is based on actions set out to achieve a financial sustainable position which are all provided with a level of intervention defined by the College as:

- Level 1 actions- These actions are considered to have a low to moderate impact on College services and functions and are included in the Strategic Implementation Plan. Many of these are actions that the College would undertake in the normal course of business.
- Level 2A actions- These actions would have a moderate to high impact on College services and functions, lessening the College’s ability to meet the needs of its stakeholders including Scottish Government and SFC. They would likely lead to poorer services for students with a potential negative impact on outcomes.
- Level 2B actions- which would be organisationally transformational, with a high to critical impact on services and functions, including the reduction or cessation of learning opportunities in the Scottish Borders.
- Level 3 actions- these would essentially assume that the College ceases as a separate entity. Although that learning would continue in the Scottish Borders, it would be delivered by another institution.

Exhibit 5: Potential Financial Impact of Mitigations

Financial Year	2025/26 £'000	2026/27 £'000	Risk Profile/Commentary
Adjusted Operating Result (Surplus)/Deficit	881	1,403	
Level 1 Actions			
Additional Commercial Income	(20)	(40)	Target in budget
Additional Grants	(25)	(50)	Target in budget
Commercial- Estates	(6)	(11)	Target in budget
Efficient Resources	(45)	(45)	Some already delivered
Shared Services	(66)	(180)	2024-25 delivered, 2025-26 already in motion
Management Structures	(155)	(201)	2025-26 already in motion
Total Level 1	(317)	(527)	
Adjusted Operating Results after Level 1 Actions	564	876	

Financial Year	2025/26 £'000	2026/27 £'000	Risk Profile/Commentary
Level 2A Actions			
Academic Delivery	-	(69)	Potentially negative impact on learning quality
Professional Services	-	(87)	Potentially negative impact on student experience
Additional Commercial Income	-	(8)	Assumes additional £40k turnover- may not be achievable
Total Level 2A	-	(164)	
Adjusted Operating Results after Level 2A Actions	564	712	
Level 2B Actions			
Further 5% reduction in Support Services	-	(121)	Potentially negative impact on learning quality
10% Reduction in Student Support Services	-	(89)	Potentially negative impact on student experience
Total Level 2B	-	(210)	
Adjusted Operating Results after Level 2B Actions	564	502	
Credit re-instatement		(503)	
Net Adjusted Operating Result (Surplus)/Deficit	564	(1)	

Source: Ratification of Financial Sustainability Development Plan– June 2025

As noted in exhibit 5, level 2 and above actions do carry increasing levels of risk and are expected to have a negative impact on the quality of the College's service provision. While the College has identified and risk assessed a number of actions to close the projected deficit, a sustainable financial position cannot be reached by these actions alone and the College has recognised that further intervention would be required by SFC. The College has identified

that without some level of support from SFC, the College will likely become unsustainable by the end of 2026/27.

We do understand that these external factors (e.g. funding decisions and inflation) are not entirely within the College's control and the College is considering all options to maintain appropriate levels of teaching delivery. The College itself has recognised that achieving a sustainable medium term financial position in the current environment will be extremely challenging with a risk that the College may be unsustainable after 2026/27. Our assessment continues to reflect this.

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



Leadership

There have been a number of changes to the Board of Management from 1 August 2024 to the date of signing the accounts.

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

In addition, the Board held a number of development sessions during 2024/25 including Board Development Days in November 2024 and April 2025. We have concluded that the College provided board members with appropriate and relevant information and a suitable platform to continue to carry out their leadership responsibilities effectively whilst scrutinising management.

Governance arrangements

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

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

The Board continues to focus on demonstrating continuous improvement and carries out an annual Board Self-Evaluation survey, which was last undertaken in 2025. Overall, the feedback received from Board members was positive and represented an improvement from

the previous year's survey. Several areas were identified for continuous improvement, and these were incorporated into the 2025/26 Board Development Plan.

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

Board and Committee meetings

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

Throughout 2024/25, 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.

Vision 2030

The College's newest iteration of its strategy, Vision 2030 (the Vision), was launched at the start of the 2025/26 academic year. The Vision was developed in 2024/25 through consultation and feedback with stakeholders including students, staff, public bodies and private industry and is focused on the College's ambition to drive a successful future for learners and businesses across the region.

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

- Our learning will be supportive and equitable recognising the diversity of learners and ensuring we have the support frameworks to ensure their success.
- Our quality assurance and enhancement framework ensures we offer high quality learning, skills and enterprise opportunities for our students and businesses.
- We will seek to grow opportunities to share our excellent practice and learn from overseas partners as part of Scotland's globally respected further education community.
- Our agile and responsive delivery model will ensure we can respond to changing national and regional priorities and also create bespoke skills interventions at pace to meet industry needs.
- Our planning and delivery will be transparent, resilient and trusted, based on evidence of demand and consultation on outcomes and use of resources.

The Vision 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. The supporting strategies are currently in development, and all are due to be presented to the Board by December 2025. The supporting strategies consist of:

- Digital and Data Strategy
- Estates Strategy
- Financial Strategy
- People Strategy
- Skills and Enterprise Strategy
- Sustainability Strategy

Progress on the delivery of the Vision and its supporting strategies will be reported and monitored in line with the governance structure which was in place for Strategic Ambition 2020-2025. This includes regular reporting of relevant KPIs through the Principal's Report and annual reporting to the Board and Committees.

We are satisfied that appropriate arrangements are in place to oversee the implementation and delivery of Vision 2030.

Internal Audit

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

The annual internal audit report was presented to the Audit and Risk Committee in May 2025. This report confirmed that;

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

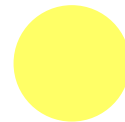
In addition, internal audit has not advised management of any additional disclosure requirements for the governance statement or any inconsistencies between the governance statement and information they are aware of from its work.

Use of resources to improve outcomes

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

Auditor judgement

Risks exist to the achievement of operational objectives



Performance management arrangements

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

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

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

Performance framework

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

The College has KPIs which are classified into three categories:

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

On an annual basis, the College reviews its KPIs and targets to ensure they remain appropriate. The 2025/26 targets were presented to the Board in October 2025 as part of the Principal's Report. It is important that the College continues to keep KPIs and targets under

review to ensure they are reflective of Vision 2030, annual priorities and allow key risks to be managed.

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

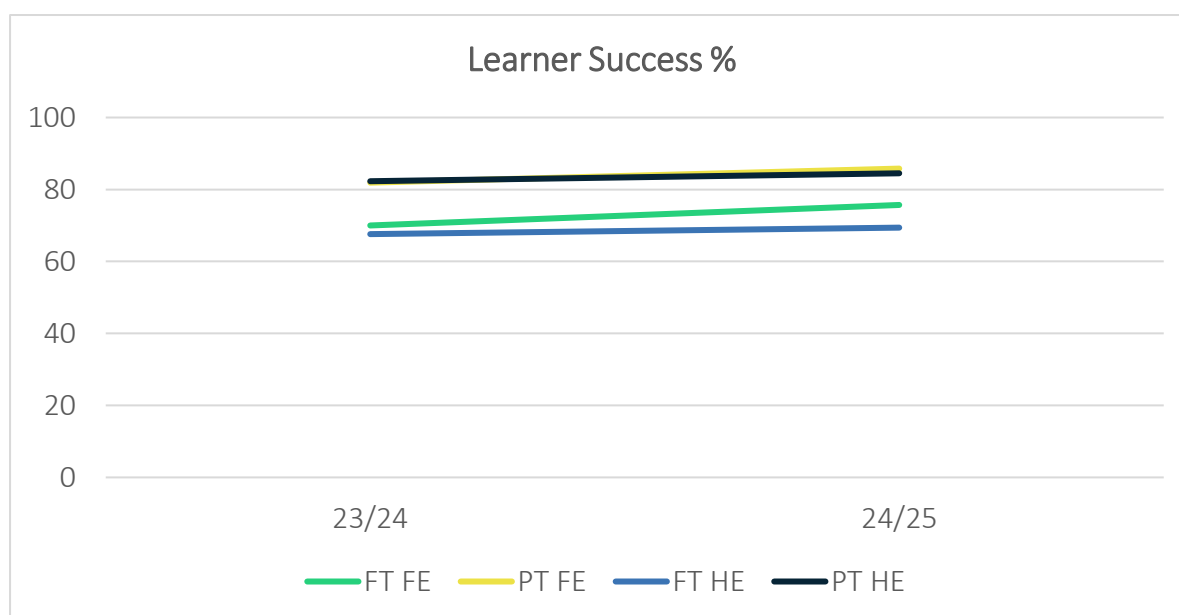
Performance in 2024/25

The College’s performance against key performance indicators show that overall performance is positive. We have highlighted the key performance trends for 2024/25 below (whilst financial performance is detailed in the financial management section).

As highlighted in exhibits 6 and 7, the College has seen an increase in student success and decrease in early withdrawal across all student levels and modes of study compared to 2023/24. These outcomes can be directly attributed to the embedding of the redesigned Student Support Services including:

- Enhanced use of the College’s monitoring and tracking tool, ProMonitor.
- Better recording of support information.
- Targeted interventions.
- Increased induction engagement.
- Clearer referral pathways.
- Support team engagement in tracking and monitoring meetings.
- Stronger multi-agency collaboration.

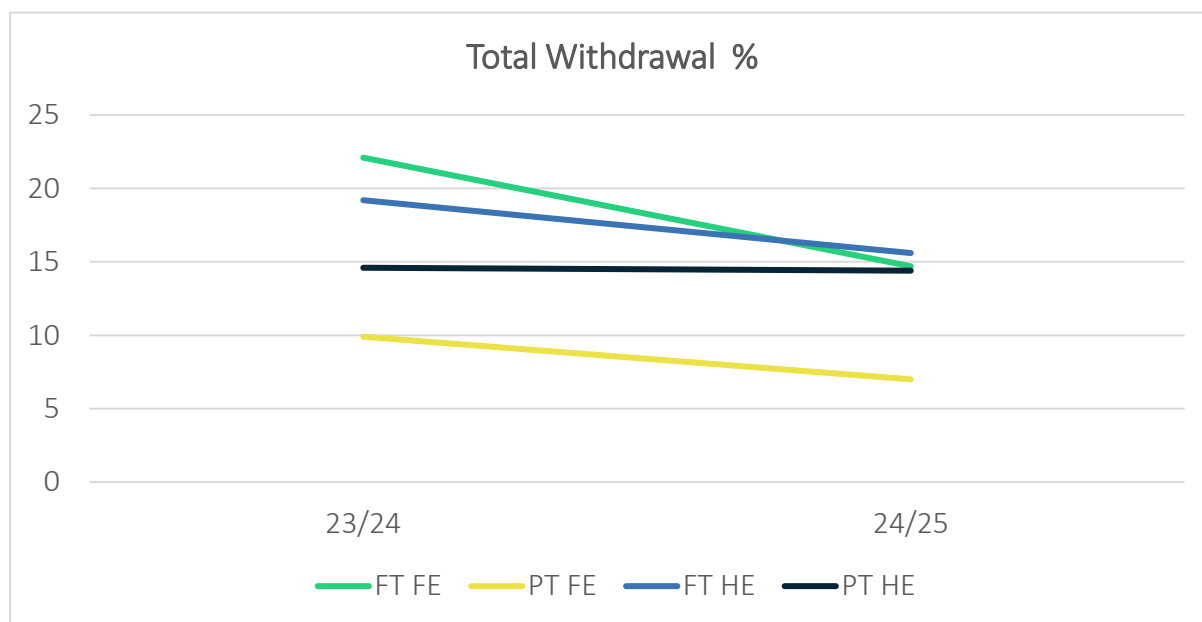
Exhibit 6: Learner success percentages



Source: Performance Update for 24/25 and Annual Accounts

In 2024/25, the volume of core credits achieved by the College was higher than the outcome agreement targets, which was in line with the College’s performance over the last four years. In 2024/25, the students attending the College achieved a total 23,892 credits against a target of 23,891 credits. This is due to higher enrolment levels across all modes of learning and levels.

Exhibit 7: Withdrawal Rates



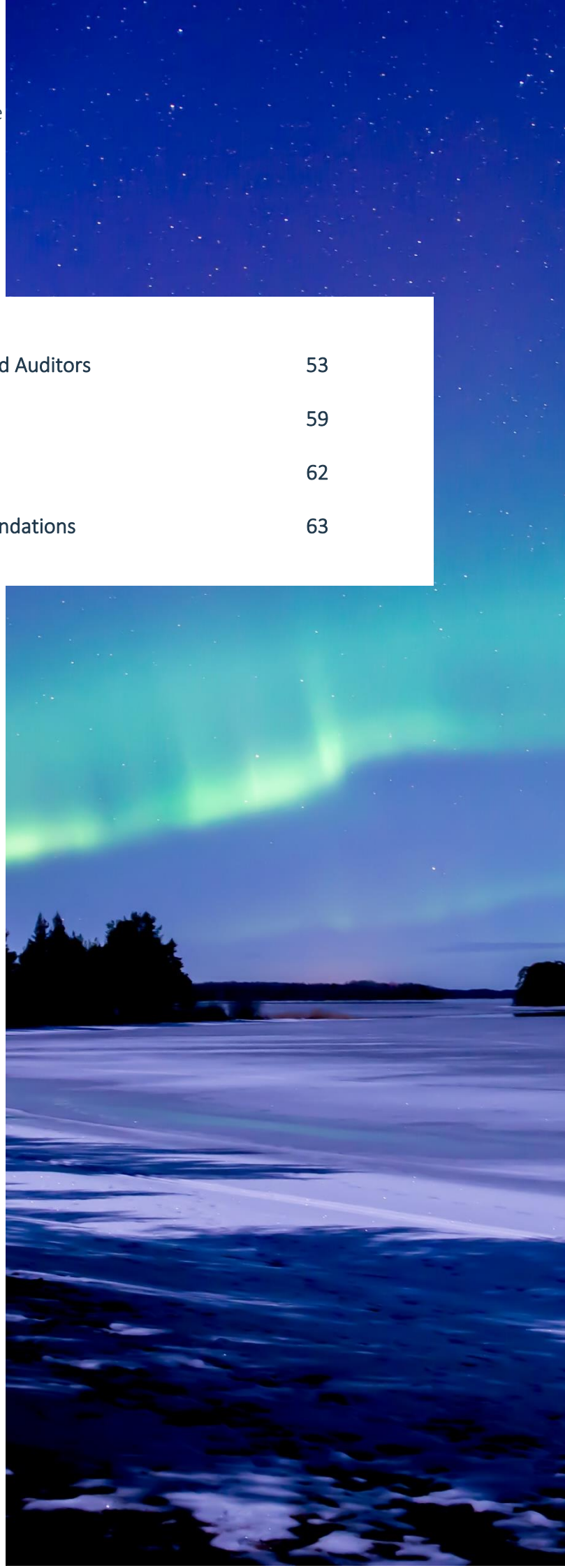
Source: Performance Update for 24/25 and Annual Accounts

In line with SFC requirements, the College performed a student satisfaction survey in 2025. The responses included those from learners from each of the faculties and from a range of courses including full-time and part-time. In almost all areas students indicated higher satisfaction levels than the satisfaction target set of 90%. The survey was very positive, presenting a 94% satisfaction rate which represents a slight increase from the 2023/24 result.

Overall, the College’s performance has improved since 2023/24 which represents a notable achievement in a year where both the College and the sector faced a high level of financial challenge. As described in the Financial Sustainability section, there is a risk that the scale of savings required to enable the College to achieve a financially sustainable position alongside the significant financial pressures that the College is facing may impact on its ability to deliver curriculum activity or support students and staff in future years. This also presents a risk of deterioration in the College’s performance and it is important that the College continues to monitor and assess its ability to offer quality provision of education.

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Appendix 1: Responsibilities of the College and Auditors

Responsibilities of the College

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

Area	College responsibilities
<p>Corporate governance</p>	<p>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.</p>
<p>Financial statements and related reports</p>	<p>The Board has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of the financial position of the College and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support the balances and transactions in its financial statements and related disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and • preparing and publishing, along with the financial statements, an annual governance statement, governance compliance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements and prepared in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable. <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the College and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting</p>

Area	College responsibilities
	<p>framework. The relevant information should be communicated clearly and concisely.</p> <p>The Board of Management is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. It is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</p>	<p>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.</p>
<p>Financial position</p>	<p>The College is responsible for putting in place proper arrangements to ensure its financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • 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.
<p>Best value</p>	<p>The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value. Accountable Officers are required to ensure accountability and transparency through effective performance reporting for both internal and external stakeholders.</p>

Auditor responsibilities

Code of Audit Practice

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

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

Our responsibilities

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

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

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

Wider scope audit work

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

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

Financial management



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

Auditor considerations

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

Financial sustainability



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

Auditor considerations

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

Vision, leadership and governance



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

Auditor considerations

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

Use of resources to improve outcomes



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

Auditor considerations

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

Best Value

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

Audit quality

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

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report can be found at [Quality of public audit in Scotland: Annual report 2024-25 | Audit Scotland](#)

Independence and ethics

The Ethical Standards and ISA (UK) 260 require us to report full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical requirements and further to our external audit plan issued confirming audit arrangements we confirm that there are no further facts or matters that impact on our integrity, objectivity and independence as auditors that we are required or wish to draw attention to. We consider an objective, reasonable and informed third party would take the same view.

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

In particular:

Non-audit services:

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Azets provided advisory services to the College on VAT matters. We obtained clearance from our Engagement Lead, Ethics Team and Audit Scotland prior to commencing the engagement. The work has been undertaken by a separate team from the audit, and the audit team has had no involvement in this VAT work.

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

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

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

Our period of total uninterrupted appointment as at the end of 31 July 2025 was nine years.

Audit fees

The total fees charged to the College for the provision of services in 2024/25 were as follows:

Fee element	2024/25	2023/24
Auditor remuneration	43,980	42,200
Pooled costs	(5,550)	(4,500)
Sectoral cap adjustment	(11,190)	(10,970)
Total audit fee	27,240	26,730
Non-audit services	5,000	5,000
Total fees	32,240	31,730

Appendix 2: Audit adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management

Adjusted misstatements

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

No	Detail	Statement of Comprehensive Income Dr / (Cr) £'000	Balance Sheet Dr / (Cr) £'000	Impact on Reserves Dr / (Cr) £'000
1.	Overstatement of cost and accumulated depreciation of property, plant and equipment due to fully depreciated assets no longer in use by the College remaining on the fixed asset register.		Cost (1,412)	-
			Accumulated Depreciation 1,412	
2.	Reclassification of the dilapidations balance from accruals to provisions.		Accruals 183	
			Provisions (183)	
	Net impact on (income)/expenditure	0	0	0
	Net impact on net assets	0	0	0

Unadjusted misstatements

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

No	Detail	Statement of Comprehensive Income Dr / (Cr) £'000	Balance Sheet Dr / (Cr) £'000	Impact on Reserves Dr / (Cr) £'000
1.	Release of accrual per extrapolated error identified in other operating income testing (£7,810 of accrued architecture fees should have been released during 2024/25. We have been unable to conclude that this represents an isolated error, therefore, this error value has been extrapolated over our accruals testing population)	(19)	19	
2	Release of accrued income per extrapolated error identified in accrued income testing (£12,658 of Skillseekers accrued income should have been released during 2024/25. We have been unable to conclude that this represents an isolated error, therefore, this error value has been extrapolated over our accrued income testing population)	24	(24)	
	Net impact on (income)/expenditure	5		0
	Net impact on net assets		(5)	0

Misclassification and disclosure changes

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

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

No	Detail
1.	Related parties note There was one related party identified where the transaction amounts disclosed did not agree to the transactions identified within the transaction listing.
2.	Hawick transfer to Asset held for Sale Fixed Assets note updated to present the transfer of Hawick to Assets held for Sale as an asset reclassification.
3.	Remuneration Report To reflect deduction of employee contributions from real increase in CETV for employees under the Scottish Teacher's Superannuation Scheme.
4.	Annual Governance Statement and Performance Report Minor changes for inconsistencies noted throughout.

Appendix 3: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our 2024/25 audit, which we feel are of sufficient importance to merit reporting.

The recommendations are categorised into three risk ratings:

Key:

- Significant deficiency
- Other deficiency
- Other observation

1. Fully depreciated assets	Other observation
Observation	<p>From our audit testing we identified a number of assets which were held on the College’s fixed asset register at nil net book value and that were no longer owned/used by the College.</p> <p>The College conducted a full review of all assets held at nil net book value which confirmed a cost of assets no longer owned/used by the College of £1,412,000. Management made appropriate adjustment to reflect this result, as detailed in Appendix 2.</p> <p>The College also recognised that they do not carry out regular enough reviews of nil net book value assets and asset useful lives.</p>
Implication	<p>There is a risk that, without regular review of nil net book values, the College does not hold appropriate records of what assets it owns and assets which remain in use which could result in poor asset management.</p>
Recommendation	<p>We recommend that the College undertakes annual reviews of nil net book value assets and asset useful lives.</p>
Management response	<p>Fixed asset annual review will be incorporated in the Annual Account process.</p> <p>Responsible officer: Financial Controller Implementation date: 30/6/2026</p>

Appendix 4: Follow up of prior year recommendations

As part of our audit work we have followed up on control weaknesses and recommendations either raised in last year's Annual Audit Report or carried forward from prior years.

1. IT general controls	
Recommendation	We recommend that the specific IT points identified are addressed.
Implementation date	December 2024
Closed	All specific IT points now addressed by the College.



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