



HENDERSON LOGGIE

## **Borders College**

**Annual Audit report for 2006/07  
to the Board of Management and  
the Auditor General for Scotland**

**External Audit Report No: 2007/03**

**Draft Issued: 05 November 2007**

**Final Issued: 07 November 2007**

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**Notice: About this report**

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ('the Code') and *Statement of Responsibilities of Auditors and Audited Bodies*.

This report is for the benefit of only Borders College and is made available to Audit Scotland (together with the beneficiaries), and has been released to the beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without prior written consent.

Nothing in this report constitutes a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against Henderson Loggie CA (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law Henderson Loggie CA does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.



# Executive Summary

## 1.1 Corporate Governance

- ❑ The College has shown a surplus for the year of £0.252 million and a deficit income and expenditure account balance of £0.643 million at 31 July 2007.
- ❑ The College's internal auditors have concluded that *'We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes. 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.'*
- ❑ The College's Corporate Governance Statement confirms that the College has applied the principles set out in the 2003 revised Combined Code on Corporate Governance and the 2006 ASC Guide for College Board Members.
- ❑ We identified no significant control weaknesses during our audit. In general, the College's key systems of internal control appear to be adequate, well designed and operating effectively.
- ❑ The College has an on-going process for identifying, evaluating and managing its significant risks.

## 1.2 Performance

- ❑ The College's updated Strategic Plan was approved in June 2007. The process involved focussed involvement of the Board of Management and wide spread consultation with College staff and other stakeholders.
- ❑ Risk management arrangements were assessed by the College's internal auditors as strong. The risk register is linked with the College's strategic objectives.
- ❑ Regular performance reports are submitted to the Board and Committees during the year. KPIs have been set to coincide with the Strategic Plan over four years to 2010.
- ❑ The College's financial position has stabilised over recent years with surpluses achieved in the year. It is recognised by the College that new funding sources will be needed. The College's subsidiary, BC Consultants Ltd, achieved significantly improved financial results.
- ❑ The College Efficient Government Initiative submission identified potential savings of £65,000 over three years to 2008.
- ❑ The College's VFM policy was updated during the year. Internal Audit undertook three VFM reviews and reported that the College's VFM arrangements were strong.



# Executive Summary

## 1.3 Financial Statements

- ❑ On 7 November 2007 we issued our proposed audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2007 and on the regularity of the financial transactions reflected in those financial statements. Subject to the approval of the accounts by the Board of Management at its meeting on 13 December 2007 we will issue our signed audit opinion.
- ❑ The annual accounts of the College comply with the Accounts Direction issued by SFC and the Statement of Recommended Practice on Accounting for Further and Higher Education.
- ❑ Two significant potential audit adjustments were identified during the audit. These were discussed with the College's finance officers. On grounds of materiality no adjustments were made to the financial statements. A number of disclosure adjustments were highlighted which have been applied to the financial statements.
- ❑ The College has exceeded its SUMS target for 2006/07 by 2%.
- ❑ The implementation of the College Estate Strategy resulted in a material movement in the fixed asset profile during the year. The acquisition, through deferred consideration, of the Netherdale site was finalised at an agreed value of £4.75 million. Works on refurbishment and new build commenced during the year and are on going.
- ❑ Further implementation of the strategy, including the sale of existing estate is planned for.



# Introduction

## 2.1 Background

2.1.1 2006/07 was the first year of our five year appointment as external auditors of Borders College ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work.

2.1.2 The framework under which we operate under appointment by Audit Scotland is as outlined in our strategic planning memorandum and 2006/07 Audit Plan issued on 20 March 2007. The scope of the audit was to:

- provide an opinion on, to the extent required by the relevant authorities, the financial statements and the regularity of transactions in accordance with the standards and guidance issued by the Auditing Practices Board;
- review and report on the College's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, and prevention and detection of corruption; and the College's financial position; and
- review and report on the College's arrangements to manage its performance, as they relate to the economy, efficiency and effectiveness in the use of resources.

2.1.3 Our audit approach focused on the identification of the significant risks areas facing the College and the significant classes of transactions, estimates, other account balances and disclosures impacting upon the financial statements. These include;

- compliance with legislation and financial regulations;
- estates capital expenditure and the appropriateness of the accounting entries;
- achievement of commercial income target;
- staff shortages and the long term absence through ill health;
- FRS 17 provision for pension liabilities;
- recognition of funding provided for specific purposes and the regularity of corresponding expenditure.

## 2.2 Basis of Information

2.2.1 External auditors do not act as a substitute for the College's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.



# Introduction

## 2.2 Basis of Information (Cont'd)

- 2.2.2 To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff of the College. Except to the extent necessary for the purposes of the audit, this information has not been independently verified. The contents of this report should not be taken as reflecting the views of Henderson Loggie CA except where explicitly stated as being so.

## 2.3 Acknowledgement

- 2.3.1 Our audit has brought us in contact with a range of College staff. We wish to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our responsibilities.



# Corporate Governance

## 3.1 Financial Position

3.1.1 Funding Council circular FE/54/02, issued on 20 December 2002 defines a college that is financially secure as one that *‘on a continuing basis, is able to generate operating surpluses reliably and as planned, and through that accumulate a reasonable level of financial reserve. The college must also generate sufficient cash to finance its operations and meets its liabilities; regular operating surpluses would ensure this.’*

3.1.2 Table 1 provides a summary of the College’s planned and actual financial results, based on the formal returns submitted, by the College, to the Funding Council.

**Table 1: Comparison of planned and actual financial results**

	2005/06 Actual £000	2006/07 Planned £000	2006/07 Actual £000	2007/08 Planned £000
Financial outturn Surplus	(12)	117	252	34
Income and expenditure reserves	147	531	643	652
Cash balances	1,905	2,882	2,969	4,513

Source: Audited accounts and 2007 FFR

3.1.3 Based on the results for the year to 31 July 2007 the College meets the requirements of the Funding Council to be classed as financially secure.

3.1.4 Overall, the College income in 2006/07 has decreased by £0.107 million (-1.2%) over 2005/06. The main reason is due to a significant decrease of £0.176 (-11.1%) in tuition fees and educational contracts. While the SFC recurrent grant increased by £0.555 million (9.5%) other SFC grant income fell resulting in a net increase of £0.81 million (1.2%). There was no Financial Security Funding during the year, £0.246 million was received in 2005/06.

3.1.5 Expenditure in 2006/07 fell by £0.279 million (-3.1%) over 2005/06 primarily due to a decrease in staff costs of £0.081 million (-1.3%) and a drop in other operating expenses of £0.226 million (-9.4%). While staff received a 2.5% pay award during the year staff costs were offset by a reduction in pension costs. The decrease in other operating expenses is mainly due to a drop in teaching department costs of £0.156 million (-22.5%) and a decrease in premises costs of £0.090 million (12.1%).

3.1.6 The College’s cash balance at 31 July 2007 was £2.969 million, an increase of £1.064 million (55.9%) on the previous year. While generating a positive cash position from operating surplus and working capital management, the majority of the uplift in the cash position is due to a net inflow of funds of £0.855 million (286.9%) from capital expenditure and financing. Deferred capital grants of £3.746 million were received as part of the implementation of the College’s estate development programme.



# Corporate Governance

## 3.1 Financial Position (Cont'd)

### **2006/07 SUMS outturn**

3.1.7 The College's outturn against its 2006/07 SUMS target is shown in table 2.

**Table 2: 2006/07 SUMS outturn**

	2005/06	2006/07
SUMS target	32,670	34,205
SUMS actual	33,665	34,860

*Source: Audited SUMS returns.*

3.1.8 The College's internal auditor carried out the audit of the SUMS return for 2006/07. They concluded that the student data returns have been compiled in accordance with all relevant guidance, that adequate procedures are in place to ensure the accurate collection and recording of data; and, on the basis of testing, reasonable assurance can be taken that the FES return contained no material mis-statement.

### **FRS 17**

3.1.9 The College accounted for its participation in the local government pension scheme as a defined benefit scheme and accordingly this has resulted in the College's share of the net pension liabilities within the Scottish Borders Council Pension Fund (SBCPF) being shown on the balance sheet. This is consistent with the accounting treatment adopted in 2005/06.

3.1.10 Note 25 to the accounts highlights the deficit within the SBCPF. A £1.930 million total pension liability has been reported in 2006/07, a reduction of £0.372 million from the position in 2005/06. The Note provides the necessary FRS 17 disclosure.

3.1.11 With the exception of liabilities arising from early retirements, the College is unable to separately identify its share of assets and liabilities in the Scottish Teachers' Superannuation Scheme as the scheme is notionally funded. The College has applied the concession allowed by FRS 17 and has accounted for the scheme as a defined contribution scheme.

### **Capital Income and Expenditure**

3.1.12 The College's estate strategy designed to create a "hub and spoke" model of further and higher education provision saw significant advancement during 2006/07 with the acquisition of the former Herriot Watt University site at Scottish Borders Campus, Netherdale, Galashiels. The acquisition took the form of a transfer of the property to the College in exchange of a long term lease. The value of the lease was established at £4.750 million and this has been brought into fixed assets and lease liability.

3.1.13 In addition to the Netherdale property, the College incurred capital expenditure on land and buildings amounting to £2.834 million during the year. The expenditure related to the refurbishment of the High Mill Building at the Scottish Borders Campus, construction of the Technology Building, the acquisition of a new site in Hawick and the completion of a new Vocational Training Centre in Newtown St Boswells.





# Corporate Governance

## 3.1 Financial Position (Cont'd)

- 3.1.14 The capital expenditure has been principally funded from the SFS deferred capital grants of £3.090 million and through the lease arrangement with Herriot Watt University.
- 3.1.15 There has been an element of slippage in the programme of works effecting planned completion dates in 2007/08. Early drawdown on the Netherdale contingency fund together with project specific and delay risks has resulted in an over increase in the project risk profile. A report on these risks has been taken to the Board for consideration and action.

### *Lease Obligations*

- 3.1.16 This represents the deferred consideration of £4.750 million on the acquisition of the Netherdale property referred to in Paragraph 3.1.12. The settlement of the liability will be in the form of the provision of rent free accommodation to Herriot Watt University. The liability will commence being discharged from October 2008 over the rent free period of 17.5 years.

### *Provisions*

- 3.1.17 The College has made a provision of £0.020 million for dilapidation costs in respect of a property leased by the College. Previous provisions for restructuring costs of £0.092 million and the retiral of the former Principal of £0.060 million were utilised during the year with no remaining provision at 31 July 2007.

## 3.2 Corporate Governance Arrangements

- 3.2.1 The College has continued to develop its corporate governance arrangement over recent years. The arrangements were reviewed by the College's internal auditors during the year who confirmed that the arrangements were largely satisfactory although some weaknesses were identified.
- 3.2.2 Recommendations for improvement included one High priority and four Medium priority actions. The High priority action related to the need for the Register of Members Interests to be fully updated. The Medium priority issues included the need to update the Financial Regulations, the completion of an induction pack for new members, the need for Audit Committee members not to also be members of the Finance and General Purposes Committee and that the responsibilities of the Chairs, Audit and Remuneration Committees be formally included in the Financial Regulations. The College agreed to implement the necessary actions to address the recommendations.

## 3.3 Systems of Internal Control

### *Control environment*

- 3.3.1 Our work undertaken in relation to the 2006/07 financial statements audit has not identified any control weaknesses in the operation of financial controls and procedures.



# Corporate Governance

## 3.3 Systems of Internal Control (Cont'd)

### *Internal Audit*

- 3.3.2 Wylie & Bisset provided internal audit services to the College in 2006/07. We have reviewed the scope and extent of work performed by internal audit during the year and considered the impact of their findings and conclusions on our work, where appropriate.
- 3.3.3 The College's internal auditors have concluded that *'We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes. 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.'*

## 3.4 Corporate Governance Statement

- 3.4.1 Colleges are required to include a statement on their corporate governance arrangements within their annual accounts. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management. In 2005/06 the College adopted the revised Combined Code on Corporate Governance issued in 2003 one year earlier than required. The College's internal auditor carried out a review on the College's compliance with the Combined Code and reported that *"We can therefore conclude that the College is compliant with the Combined Code in all material aspects"*.

- 3.4.2 We are required to review the statement to assess whether the description of the process adopted in reviewing the effectiveness of the system of internal control appropriately reflects the process. We are not required to provide an opinion on the College's systems of internal controls.
- 3.4.3 The College's corporate governance statement for 2006/07 illustrates that the College was fully compliant with the 2003 Code and the 2006 ASC Guide for College Board Members throughout the year.
- 3.4.4 Our audit opinion on the statement is covered by our auditors' report and is unqualified in this respect.

## 3.5 Fraud and irregularity, standards and conduct, and prevention and detection of corruption

- 3.5.1 During 2006/07 we had regard to Statement of Auditing Standards 110: *Fraud and Error* and International Standards on Auditing 240: *The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements*.
- 3.5.2 The College has appropriate arrangements in place, including current versions of its Standing Orders, Financial Regulations and a Fraud Policy and Response Plan. These documents are reviewed and updated periodically.
- 3.5.3 There are no outstanding recommendations from previous reports in relation to prevention and detection of fraud and irregularity, standards of conduct and prevention and detection of corruption.



# Performance

## ***Introduction***

- 4.1.1 The terms of appointment from Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors.
- 4.1.2 No performance audit studies were identified by Audit Scotland for the College during 2006/07.

## ***Strategic Plan***

- 4.1.3 The College has had in place for a number of years a strategic planning process delivering approved Strategic Plans. In light of the implementation of its ambitious property strategy involving a co-location with Herriot-Watt University in Galashiels and the development of a new facility in Hawick, the Board took the opportunity to review the College's strategic planning processes. A revised approach was approved in September 2006.
- 4.1.4 The new approach included the focussed involvement of the Board of Management at a strategic planning event, college-wide staff consultation, stakeholder input, and a structuring of the plan around key activities, markets and policy requirements. The new Strategic Plan 2007-2010 was approved by the Board of Management in June and published in September 2007.

## ***Risk Management***

- 4.1.5 The College has a Risk Management Policy which sets out the College's underlying approach to risk management and the roles and responsibilities of the Board of Management, College Principal, the College's Risk Management Team and other key parties. The main reporting procedures are also identified.
- 4.1.6 The system of internal control is designed to incorporate risk management, which together with other elements, facilitates the efficient and effective operation of the College and enables it to react to a variety of operational, financial and commercial risks
- 4.1.7 The College's risk register, updated annually, categorises risks and links the risks against the College's strategic objectives under three main headings of Education, Corporate, and Leadership and Management. Each risk is assessed as either low, medium or high and is colour coded (traffic lights) for ease of identification. The top 23 strategic risks are included in the risk register. There were no high assessed risks. A copy of the risk register is included in the published Strategic Plan 2007-2010.
- 4.1.8 Internal audit reviewed the College's risk management arrangements during the year and concluded that *"The systems used by the College are strong in this area."*

## ***Performance management***

- 4.1.9 The Board receives regular reports on its performance in implementing its Strategic Objectives. As part of the strategic review process adopted in 2006, the Board considered the College's performance against its Strategic Objectives for 2006/07. The outcome of this process is included in the Strategic Plan 2007-2010.



# Performance

## *Performance management (Cont'd)*

- 4.1.10 While many of the specific actions under the six specific Strategic Aims are of an on-going nature, there is evidence of progress made in 2006/07.
- 4.1.11 Key Performance Indicator Targets under the headings of Effectiveness, Efficiency and Enrolment targets have been set for the four years to 2010 and there are earmarked review dates for each throughout 2007/08.

## *Financial management*

- 4.1.12 While financial stability has been established in recent years the College has identified as a major Strategic Aim the need to enhance the College's current position of financial security over the coming years.
- 4.1.13 The achievement of a surplus and the SUMs target for 2006/07 are seen as key achievements. The College however recognises the need to continue its activities around securing greater efficiency in its operations through Best Value and VFM reviews and through the implementation of the co-location project.
- 4.1.14 The College further recognises the need to develop an exit strategy in respect of ESF funded projects and to grow its non-SFC grant-in-aid revenue sources, both in terms of monetary values and as a percentage of total capital and revenues. The College's subsidiary company, BC Consultants, is seen as playing an important role in achieving income growth.

- 4.1.15 The College's finance department has been under pressure through staff shortages and long term illness. A report from FEDD was commissioned to assess the risks to the College. Actions necessary to address the position were identified and were actioned during 2006/07. This included the short term recruitment of experienced finance managers during the year. The College has now undertaken a restructuring of its finance function to meet the longer term needs of the College in line with the move to the new Scottish Borders Campus. A new Assistant Principal Finance and Resources and College Accountant have been appointed and are in post.

- 4.1.16 Regular reporting throughout the year on financial monitoring was taken to the Finance and General Purposes Committee and onward to the Board of Management.

## *Efficient Government Initiative (EGI)*

- 4.1.17 The College submitted its EGI information schedule to the SFC as required of them. Six main areas covering HR, marketing, finance, procurement, admissions and student records were identified providing the potential for savings of £65,000. The largest area for savings comes from participation in a procurement consortium.



## Performance

### *Value for Money*

4.1.18 The College has a Value for Money Policy which was updated in June 2007. This sets out the scope, responsibilities, concept and means of measuring the achievement of VFM. The Policy is clear and makes appropriate links to the wider benefits of promoting VFM in terms of clarification of objectives, planning, openness and accountability, compliance and risk assessment. The Policy promotes the following of VFM principles in planning and implementing activity to aid the demonstration of VFM in the use of resources.

4.1.19 Three VFM reviews were carried out by the College's internal auditors during the year.

#### *College Transport Arrangement*

The internal auditors reported that value for money was not being achieved by the College in its arrangements for transport with Scottish Borders Council. A number of areas of deficiency were identified. These mostly related to the lack of available supporting information in respect of transport charges on the College and the acceptance by the College to the charges made without challenge. A number of recommendations for action were made by the internal auditors.

Management believe that evidence to support the achievement of value for money was perhaps not readily available but have subsequent to the internal audit review carried out further work in this area and have gained assurance that appropriate procurement arrangements for transport services is undertaken by Scottish Borders Council.

#### *College Health and Safety Arrangement*

The internal auditors concluded that the College's arrangements for health and safety were strong. A number of medium and low priority recommendations were made which are being actioned by management.

#### *Review of co-location project*

This review confirmed that the College had strong systems in place to ensure robust procedures were being followed, that risks relating to the project were being identified and managed, that the budget was being managed effectively, that the information from the Project Manager and the Finance team was being received and reported to the Board in a timely and accurate manner.



# Financial Statements

## 5.1 Audit Opinion

- 5.1.1 On 7 November 2007, we issued our proposed audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2007 and on the regularity of the financial transactions reflected in those financial statements. Subject to the approval of the accounts by the Board of Management at its meeting on 13 December 2007 we will issue our signed audit opinion.

## 5.2 Audit Completion

- 5.2.1 An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. We have summarised in table 3 the three key elements of the audit process that we require the College to engage with.

**Table 3: Key elements of the audit process**

### **Completeness of draft financial statements**

A set of draft financial statements was received at the start of the final audit visit. These were of a high standard and required minimal presentational changes as part of the audit process.

### **Quality of supporting working papers**

In accordance with our normal practice, we issued a '*prepared by client*' request that set out a number of documents required for our audit of the financial statements. A full set of supporting working papers were provided in line with this list from the outset of the audit and were of a suitably high standard.

### **Response to audit queries**

We are pleased to note that all audit queries were dealt with in a timely manner.

## 5.3 Audit Adjustments and Confirmation

- 5.3.1 Two significant potential adjustments were identified during the audit. These were discussed with the Assistant Principal – Finance and Resources on 26 October 2007 and subsequently with the College Accountant and Financial Controller. It was agreed not to adjust the accounts on the grounds of materiality.
- 5.3.2 A number of disclosure and clarification adjustments were made to the accounts to ensure SORP compliance and improve the overall presentation of the accounts.

### ***Confirmations and Representations***

- 5.3.2 We confirm that as at 7 November 2007, in our professional judgement, Henderson Loggie CA was independent within the meaning of regulatory and professional requirements and the objectivity of audit staff was not impaired. Appendix I provides a copy of the letter issued to the audit committee.
- 5.3.3 In accordance with auditing standards, we obtained representations from the College on material issues.



## Appendix I - Confirmation of Independence

### To: Borders College and the Auditor General for Scotland

Professional ethical standards require us to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on Henderson Loggie's independence and the objectivity of the audit team. This statement is intended to comply with this obligation.

We have considered the fees paid to us by Audit Scotland and the College for professional services provided by us during the reporting period.

We are satisfied that our general procedures support our independence and objectivity.

### General procedures to safeguard independence and objectivity

Henderson Loggie is committed to being and being seen to be independent. As part of our ethics and independence policies, all Henderson Loggie staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings or interests. Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through:

- instilling professional values;
- communications;
- internal accountability;

risk management; and

independent reviews.

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the College / audit committee.

### Confirmation of Audit Independence

We confirm that as at 7 November 2007, in our professional judgement, Henderson Loggie is independent within the meaning of regulatory and professional requirements and the objectivity of the audit director and audit staff is not impaired.

This report is intended solely for the information of the College and audit committee of Borders College and should not be used for any other purposes.

Yours faithfully

Henderson Loggie

