



HENDERSON LOGGIE
Chartered Accountants

Borders College

Annual Audit report for 2008/09 to the Board of Management and the Auditor General for Scotland

External Audit Report No: 2009/03

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2 Introduction	3-4	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.
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Executive Summary

1.1 Corporate Governance

- ❑ The Group has shown a surplus for the year of £1.107 million, which includes an exceptional gain on sale of assets of £0.864 million. The income and expenditure account balance at 31 July 2009 was a surplus of £3.411 million (excluding Pension Reserve of £4.334 million deficit).
- ❑ The College's internal auditors have concluded that: *'we have identified no major internal control weaknesses during our 2008/09 internal audit activity. In our opinion Borders College has a framework of controls in place, in areas which we have reviewed, that provides reasonable assurance regarding the effective and efficient achievement of the College's objectives and the management of key risks.'*
- ❑ The College's Corporate Governance Statement confirms that the College has applied the principles set out in the 2008 Combined Code on Corporate Governance.
- ❑ 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 latest Strategic Plan, for 2007-2010, was approved by the Board of Management in June 2007. The plan is reviewed and updated annually and an update was published in August 2009. The development of a new three-year Strategic Plan is underway.
- ❑ Regular performance reports are submitted to the Board and Committees during the year. Key Performance Indicators (KPIs) have been set to coincide with the Strategic Plan over the period to 2010.
- ❑ The College's subsidiary company, BC Business Consultants Limited, is seen as playing an important role in achieving income growth. However, due to difficult trading conditions related to the current global economic downturn the profit for the year achieved by the subsidiary decreased by 92.9% to £0.018 million.
- ❑ The College recognises that value for money (VFM) is an important factor in corporate governance. VFM is embedded within the College's Procurement Policy which was written recognising the new Scottish Procurement Policy Handbook.

1.3 Financial Statements

- ❑ On 10 December 2009 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2009 and on the regularity of the financial transactions reflected in those financial statements.



Executive Summary

1.3 Financial Statements (Cont'd)

- ❑ The annual financial statements of the College comply with the Accounts Direction issued by SFC and the Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.
- ❑ Based on the results for the year to 31 July 2009 the College meets the requirements of the Funding Council to be classed as financially secure.
- ❑ Three audit adjustments together with a number of disclosure adjustments were made to the financial statements. A separate report to those charged with governance has been issued which explains the nature of the adjusted misstatements.
- ❑ The College has exceeded its SUMs target for 2008/09 by 674 WSUMs (1.9%) (2007/08 – 1,608 WSUMs, 4.6%).
- ❑ The implementation of the College Estate Strategy resulted in a material movement in the fixed asset profile during the year. Work on the new Hawick Campus project was completed early in the 2008/09 financial year and the College took possession of the main campus building at Netherdale in April 2009.



Introduction

2.1 Background

2.1.1 2008/09 was the third 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 2008/09 Annual Audit Plan* issued on 20 May 2009 and considered and approved by the Audit Committee on 18 June 2009. 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 disposals and the appropriateness of the accounting entries;
- recoverability of debtors;
- achievement of commercial income target;
- compliance with Financial Reporting Standard (FRS) 17 *Retirement Benefits* and provision for pension liabilities for early retirees;
- recognition of funding provided for specific purposes and the regularity of corresponding expenditure;
- the financial results of the College's subsidiary company and the impact on the Group financial statements; and
- compliance with the SORP on Accounting for Further and Higher Education.



Introduction

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.
- 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.
- 2.2.3 As our audit is designed primarily to enable us to form an opinion on the financial statements taken as a whole, our report cannot be expected to include all the possible comments and recommendations that a more extensive special examination would bring to light.

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. The actual results for 2008/09 include an exceptional gain on sale of assets of £0.864 million (refer paragraph 3.1.22 below), off-set by exceptional restructuring costs of £0.082 million and an impairment charge on land held for resale of £0.100 million (refer 3.1.22 below). The planned figures for 2009/10 include a further exceptional gain on sale of assets of £1 million.

Table 1: Comparison of planned and actual financial results

	2007/08 Actual £000	2008/09 Planned £000	2008/09 Actual £000	2009/10 Planned £000
Financial outturn: Surplus	588	210	1,107	1,090
Income and expenditure reserves (excl. pension reserve)	1,312	2,552	3,411	4,225
Cash balances	6,059	3,325	3,483	4,541

Source: Audited financial statements and 2008 and 2009 FFR

3.1.3 Based on the results for the year to 31 July 2009 the College meets the requirements of the Funding Council to be classed as financially secure.

3.1.4 Overall, College income in 2008/09 has increased by £1.995 million (20.2%) over 2007/08 to £11.875 million. The main reason is due to a significant increase of £1.560 million (20.3%) in Funding Council grants. The SFC recurrent grant increased from £6.929 million in 2007/08 to £7.297 million in 2008/09 an increase of £0.368 million (5.3%). In addition, financial security grants and estates grants of £0.214 million and £0.303 million respectively, which had previously been deferred, were released during the year to match revenue expenditure mainly in relation to the Co-Location Project. Other SFC grants have increased by £0.269 million (50.9%) over last year to £0.797 million. The main elements of this income relate to the Strategic Development Fund, SOSNET Blend2Learn and the Strategic Investment Fund, which are matched by related expenditure. Lastly, the release of SFC deferred capital grants has increased by £0.402 million over last year to £0.442 million due to the College’s new campuses now being depreciated.

3.1.5 Tuition fees and educational contracts, at £1.812 million, show an increase of £0.297 million (19.6%) over the previous year, which wholly relates to an increase in education contracts. Other income has increased by £0.368 million over last year to £0.441 million as it now includes the recovery of costs from Heriot-Watt University under Service Level Agreements (SLAs) (refer paragraph 3.1.23 below).



Corporate Governance

3.1 Financial Position (Cont'd)

- 3.1.6 Off-setting the above increases in income, other grant income has decreased by £0.152 million (41.1%) over last year to £0.218 million, mainly as a result of the continuing fall in European grant income. Also, investment income has decreased by £0.078 million (31.7%) to £0.168 million due to lower rates of return being achieved on cash balances and the lower balances held.
- 3.1.7 Expenditure in 2008/09 increased by £2.158 million (23.2%) over 2007/08 to £11.450 million due to increases in: staff costs – £0.701 million (10.5%) to £7.373 million; other operating expenses – £0.854 million (36.2%) to £3.212 million; depreciation – £0.482 million (269%) to £0.661 million; and interest payable – £0.121 million (146%) to £0.204 million.
- 3.1.8 Administrative and support staff received a 2.75% pay award and lecturing staff received a 2.5% pay award during the year. Although average staff FTEs have increased by only six on last year to 216 a number of new posts were created on the move to the new Scottish Borders Campus in April 2009 and 11 facilities management, ICT and audio visual posts (8 FTE) were transferred to the College from Heriot-Watt University in February 2009 under the Transfer of Undertakings (TUPE) regulations.
- 3.1.9 The increase in other operating expenses mainly relates to administration and central services costs, which have risen by £0.620 million (58.9%) on last year to £1.672 million and premises costs which have increased this year by £0.155 million (22.2%) to £0.852 million. As noted at paragraphs 3.1.4 and 3.1.5 above, a significant proportion of these increases are matched by increases in specific SFC grants or income received from Heriot-Watt University under SLAs.

- 3.1.10 The increase in the depreciation charge for 2008/09 results from the College moving to the Scottish Borders Campus and the new Hawick Campus during the year (refer paragraph 3.1.17 below). The increase in interest payable relates to a loan facility of £2.230 million drawn down during the year as part of the funding package for the College’s major capital projects and also an increase in the FRS 17 pension finance cost.
- 3.1.11 The College’s cash balance at 31 July 2009 was £3.483 million, a decrease of £2.576 million (42.5%) on the previous year. While generating a positive cash position from the operating surplus and working capital management, the decrease in the cash position is due to a net outflow of funds of £4.313 million from capital expenditure and financial investment and financing.

2008/09 SUMS outturn

- 3.1.12 The College’s outturn against its 2008/09 SUMS target is shown in table 2.

Table 2: 2008/09 SUMS outturn

	2007/08	2008/09
SUMS target	34,615	35,615
SUMS actual	36,223	36,289

Source: Audited SUMS returns



Corporate Governance

3.1 Financial Position (Cont'd)

3.1.13 The College's internal auditors carried out the audit of the SUMs return for 2008/09. 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 Retirement Benefits

3.1.14 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 2007/08.

3.1.15 Note 27 to the financial statements highlights the deficit within the SBCPF. A £4.334 million total pension liability has been reported in 2008/09, an increase of £1.095 million from the position in 2007/08. The Note provides the necessary FRS 17 disclosure.

3.1.16 With the exception of liabilities arising from early retirals, 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. This is consistent with the accounting treatment adopted in 2007/08.

Capital Income and Expenditure

3.1.17 The College has completed a major investment in its estate as part of its 'Hub and Spoke' model for the delivery of teaching and learning in the Borders region. This included the move to one main site co-located with Heriot-Watt University at Netherdale (Scottish Borders Campus) with other projects in Hawick and Newtown St Boswells.

3.1.18 Work on the new Hawick Campus project was completed early in the 2008/09 financial year and the College took possession of the main campus building at Netherdale in April 2009 with only construction snagging issues remaining to be fully addressed. In total, expenditure of £11.101 million was added to fixed assets during the year. The capital expenditure has been principally funded to date from SFC and European Regional Development Fund grants and Deferred Capital Grants totalling £2.767 million were received during the year.

3.1.19 The latest anticipated final outturn figures show total expenditure of £28.1m for the Netherdale Campus redevelopment project against a revised budget at May 2006 of £27.7m. For the Hawick Campus project the final account has been agreed with the contractor and the final outturn expenditure of £3.5 million is below the May 2006 budget of £3.7m. This is due to agreement being reached with Her Majesty's Revenue and Customs (HMRC) in May 2008 that construction services incurred in connection with the new campus could be zero-rated.

3.1.20 HMRC has also allowed the use of the Lennartz mechanism for the Netherdale and Newtown St Boswells projects. A final settlement was received from HMRC in October 2009 and this was accrued into the financial statements at 31 July 2009. The Lennartz VAT has to be repaid to HMRC over a period of 10 years and a creditor for this, totalling £1.201 million, has also been included within the financial statements (£1.083 million falling due after more than one year).



Corporate Governance

3.1 Financial Position (Cont'd)

3.1.21 Future developments include further work at Newtown St Boswells with budgeted expenditure in the region of £0.500 million.

3.1.22 The sale of the old College site at Hawick was completed in September 2008 with sales proceeds of £1.5 million being significantly above the original estimate. This has given rise to an exceptional gain on sale of assets of £0.864 million in the 2008/09 financial statements. Agreement had been reached for the sale of the 'top' half of the new site at Hawick however this fell through and the value of the asset in the College's financial statements at 31 July 2009 reflects an impairment charge of £0.100 million. The other old College sites continue to be marketed for sale. A verbal offer has been received for the sale of the Melrose Road Campus in Galashiels however this is subject to planning consent being obtained by the interested party. Options are also being considered for the demolition of this Campus.

3.1.23 During the year lease, facilities management, ICT and library agreements were signed with Heriot-Watt University for the operation of the shared Scottish Borders Campus. These comprised:

- ❑ A 17½ year lease to allow the University to occupy their areas in the main building and share the common areas;
- ❑ Two facilities management agreements (for the main building and High Mill) which require the College to provide and manage facilities services throughout the Campus;
- ❑ An ICT agreement for the College to provide ICT services to both the College and the University on Campus; and
- ❑ A library agreement which requires the University to provide the library services to both the College and the University on Campus.

3.1.24 Funding for lifecycle costs is to be dealt with through a Campus Life Cycle Trust Fund, which the College and University will pay into based on the proportions of their occupation of the building. Management of the Trust Fund, which has yet to be set up, will be carried out through joint committees.

3.1.25 A Campus Management Committee has been formed consisting of two Borders College senior managers, two Heriot-Watt senior managers and a student representative from each institution. This Committee receives reports from all shared services working groups and will approve any life cycle maintenance works.

Deferred Consideration

3.1.26 Included in the College's Balance Sheet, under Creditors, is a deferred consideration of £4.718 million relating to the acquisition of the Netherdale property in 2006/07. The settlement of the liability is in the form of the provision of rent free accommodation to Heriot-Watt University (refer paragraph 3.1.22 above). The liability commenced being discharged over the rent free period of 17½ years, beginning in April 2009, the date of occupation of the shared campus facility.

3.2 Systems of Internal Control

Control environment

3.2.1 Our work undertaken in relation to the 2008/09 financial statements audit has not identified any control weaknesses in the operation of financial controls and procedures.



Corporate Governance

3.2 Systems of Internal Control (Cont'd)

Internal Audit

3.2.2 Audit Scotland's *Code of Audit Practice* directs us to maintain effective co-ordination with internal audit and place the maximum possible reliance on their work. Scott-Moncrieff provided internal audit services to the College in 2008/09. 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.

3.2.3 The College's internal auditors have concluded that: *'we have identified no major internal control weaknesses during our 2008/09 internal audit activity. In our opinion Borders College has a framework of controls in place, in areas which we have reviewed, that provides reasonable assurance regarding the effective and efficient achievement of the College's objectives and the management of key risks.'*

3.3 Corporate Governance Statement

3.3.1 Colleges are required to include a statement on their corporate governance arrangements within their annual financial statements. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management. In 2008/09 the College adopted the Combined Code on Corporate Governance issued in June 2008.

3.3.2 The College's financial statements include a Statement of Corporate Governance and Internal Control and the overall conclusion is that: *'in the opinion of the Board, the College complies with all provisions of the Combined Code in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2009.'*

3.3.3 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.

3.3.4 Our audit opinion on the statement is covered by our auditors' report and is unqualified in this respect.

3.3.5 The College has continued to develop its corporate governance arrangements over 2008/09 including: amendment to the Administrative Scheme; further discussion on the annual programme of Board of Management self-evaluation using Association of Scotland's Colleges checklists; succession planning for Board members; an extended remit for the Remuneration Committee; consideration of the recommendations arising from the Review of Scotland's Colleges (ROSCO); and an ongoing review of policies for compliance with equalities legislation.

3.3.6 The need for Board development was a key priority that emerged from the Board Away Day in November 2008. The Chair of the Board of Management and the Clerk worked with the SFC's Further Education Development Directorate (FEDD) to put together a programme for Board development to take place alongside future Board meetings. Board training provided during the year included presentations by HM Inspectorate of Education (HMIE) on the new HMIE Quality Arrangements and the outcome of the annual engagement visit; Corporate Governance training by FEDD; and induction training for new members.



Corporate Governance

3.3 *Corporate Governance Statement (Cont'd)*

3.3.7 A recruitment process was conducted during the year to replace Board members retiring by rotation and this proved successful with three new members joining the Board at 1 May 2009. Discussion took place during the year on the tenure of Board members. It was initially agreed by the Board that in exceptional circumstances, and where compelling reasons exist, the tenure could be extended up to a maximum of six-months beyond the eight year period. This was subsequently amended to a maximum of two years following further consideration by the Board at a later date. On the above grounds, primarily to see out completion of the Estates Strategy, the Chair of the Board of Management was re-appointed on 1 May 2009 having previously served for two four year terms. In addition, a Vice Chair was appointed in June 2009. At its meeting on 14 May 2009 the Board delegated the Nominations Committee to identify a successor to the Chair.

3.4 *Fraud and irregularity, standards and conduct, and prevention and detection of corruption*

3.4.1 During 2008/09 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*.

3.4.2 The College has appropriate arrangements in place, including current versions of its Standing Orders, Financial Regulations and an Anti-Fraud and Corruption Policy. These documents are reviewed and updated periodically.



Performance

Introduction

4.1.1 The terms of appointment by 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 2008/09.

Strategic Plan

4.1.3 The College's approach to the strategic planning process includes 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 latest Strategic Plan, for 2007-2010, was approved by the Board of Management in June 2007.

4.1.4 In August 2009 the College published an update on the current Strategic Plan which identified progress made during 2008/09 and updated priorities for 2009/10.

4.1.5 The main theme of the Board Away Day in November 2009 was the development of a new three-year Strategic Plan.

Risk Management

4.1.6 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, the College Principal, the College's Risk Management Team and other key parties. The main reporting procedures are also identified. The latest version was approved by the Board of Management in December 2008.

4.1.7 The College has undertaken further work during 2008/09 to develop and embed the system of internal control, including risk management. The Senior Management Team, in its role as the Risk Management Group, undertakes a comprehensive review of risks annually based on the current Strategic Plan. The review looks at the effectiveness of the controls implemented, the progress made with risk mitigation actions and considers any new risks arising. Quarterly updates are presented to Board of Management committees by the Senior Management Team.

4.1.8 The Operational Risk Register identifies the key risks facing the College, which are cross-referenced to the Strategic Plan and KPIs. The gross and residual risks are assessed using a scoring system based on the risk likelihood and impact. The register also shows the actions being taken to reduce and mitigate the risks. All risks are assigned to managers responsible for monitoring. The top risks from the Operational Risk Register are recorded on the Strategic Risk Register, which identifies the members of the Senior Management Team and Board committees responsible for monitoring the risks.

4.1.9 A Business Continuity Plan was prepared during the year and approved by the Board of Management in September 2008. This sets out action required in the event of three threats materialising: loss of ICT / communications capability; loss of premises; and loss of people. This is currently being updated as a result of the move to the Scottish Borders Campus.

Performance Management

4.1.10 The College has developed a performance management framework that is set out within the Strategic Plan 2007-2010 and includes KPIs covering three main areas: Effectiveness; Efficiency; and Enrolment Targets. 10 KPIs are used with targets set for each year covered by the plan. The targets are reviewed and refined with changes incorporated into the current year's plan.



Performance

Performance Management (Cont'd)

- 4.1.11 The Board of Management monitors performance against the plan twice each year in January and June and following consideration of the College's performance against its strategic objectives for 2008/09, reviewed and updated the plan for 2009/10.
- 4.1.12 Board members meet annually (one of two bi-annual visits) with the Head of Department and Programme Leaders from the area they are 'Leading and Learning' to discuss the Department Self-Evaluation Report and Operational Plan. Board members prepare a Leading and Learning report following these Curricular visits.

Financial Management

- 4.1.13 The Finance and General Purposes Committee monitors performance against the College's rolling revenue and capital budgets. A suite of reports is prepared to update the Committee on College performance. The reports summarise the income and expenditure for the year-to-date, with reasons for significant variations and proposed revisions to the outturn budget although the format is currently under review. Also included are a balance sheet; key statistics (liquidity ratios, cash at bank, YTD income and expenditure % against budget); project monitoring; and WSUMs projections.
- 4.1.14 The College Senior Management Team monitor and review progress through monthly reporting and management accounts.
- 4.1.15 A Financial Strategy document was prepared by the Assistant Principal – Finance and Resources in September 2008 and approved by the Finance and General Purposes Committee. This strategy dovetails with the College's Strategic Plan and it was agreed to use the measures within the plan in place of the previous monthly management accounts reporting indicators.

- 4.1.16 The College's subsidiary company, BC Business Consultants Limited, is seen as playing an important role in achieving income growth. However, due to difficult trading conditions related to the current global economic downturn the profit for the year achieved by the subsidiary decreased to £0.018 million in 2008/09 from £0.254 million in 2007/08 a decrease of £0.236 million (92.9%). An initial budgeted profit of £0.058 million has been set for 2009/10 and the Board of Management and its committees will need to continue to closely monitor the position against budget.
- 4.1.17 A Memorandum of Agreement for the Provision of Support Services between the College and its subsidiary was put in place from 1 August 2008. This sets out the level of charges for the services provided.

Efficient Government Initiative (EGI)

- 4.1.18 As reported last year, the College submitted updated EGI information schedules to the SFC in November 2008. This included a forecast for the period 2008/09 to 2010/11 showing total projected savings of £0.397 million, mainly arising from the review of curriculum delivery as part of the budget process. At the date of this report the quantification of actual savings for 2008/09 was not available. This information will be included on a return to SFC, due to be submitted in January 2010.

Value for Money

- 4.1.19 The College recognises that VFM is an important factor in corporate governance. VFM is embedded within the College's Procurement Policy which was written recognising the new Scottish Procurement Policy Handbook.



Performance

Value for Money (Cont'd)

- 4.1.20 The College makes good use of National and Advanced Procurement for Universities and Colleges (APUC) contracts and these were utilised in purchasing in the region of 500 new desk top computers for the Scottish Borders Campus. The College is currently rolling out APUC's e-procurement system PECOS. A member of the Finance Team is undertaking Chartered Institute of Purchasing and Supply procurement training.
- 4.1.21 The internal auditors considered VFM issues during their review of Procurement in May 2009 and gained assurance that key controls over procurement activities are in place and operating effectively although a small number of areas were identified for improvement. A VFM review was also carried out in January 2009 on Momentum – change management and the internal auditors concluded that the College has generally adequate systems and processes in place to manage and monitor the Momentum initiative within the Co-Location Project. Some areas were identified where management should consider spending time to address challenges. The internal audit programme for 2008/09 includes a VFM review considering Student Experience: arrangements for monitoring student satisfaction.



Financial Statements

5.1 Audit Opinion

5.1.1 On 10 December 2009, we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2009 and on the regularity of the financial transactions reflected in those financial statements.

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.

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 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 In table 4 we draw attention to the agreed audit adjustments to the financial statements made by management following the audit process.

Table 4: Audit adjustments – impact on the financial statements

Description	I&E DR £'000	I&E CR £'000	B/Sheet DR £'000	B/Sheet CR £'000
Land & Buildings – Cost			281	
Accruals				281
Depn. – Land & Buildings	2			
Agg. Depn. – Land & Buildings				2
Fixtures & Fittings – Cost			108	
Land & Buildings – Cost				108
Depn. – Fixtures & Fittings	10			
Agg. Depn. – Fixtures & Fittings				10
Agg. Depn. – Land & Buildings			1	
Depn. – Land & Buildings		1		
Deferred Capital Grants			9	
Release of Deferred Capital Grants		9		
VAT due from HMRC			1,213	
Land & Buildings – Cost				12
Lennartz Creditor < 1yr				118
Lennartz Creditor > 1yr				1,083
Depn. – Land & Buildings	1			
Agg. Depn. – Land & Buildings				1
	=====	=====	=====	=====
	13	10	1,612	1,615
	=====	=====	=====	=====



Financial Statements

5.3 *Audit Adjustments and Confirmation (Cont'd)*

5.3.2 In addition, a number of disclosure and clarification adjustments were made to the financial statements to ensure SORP and Accounts Direction compliance and improve the overall presentation of the financial statements.

Confirmations and Representations

5.3.3 We confirm that as at 18 November 2009, 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.

5.3.4 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 18 November 2009, in our professional judgement, Henderson Loggie is independent within the meaning of regulatory and professional requirements and the objectivity of the audit partner 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