



Scott-Moncrieff
business advisers and accountants

Borders College

2016/17 Annual Audit Report to the Regional
Board and the Auditor General for Scotland

December 2017

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Key Messages

Annual report and financial statements

The annual report and financial statements for the year ended 31 July 2017 were approved by the Regional Board on 7 December 2017. We reported within our independent auditor's report an unqualified opinion on the financial statements, the regularity of expenditure and income and other prescribed matters.

We are satisfied that there are no matters which we are required to report by exception and we have nothing to report in respect of the use of the going concern basis in the financial statements.

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

Wider scope

Financial sustainability



The College has arrangements in place for budget setting and has developed a medium term financial strategy.

The 2017/18 budget is forecasting a deficit position of £0.106million. The medium term financial forecast currently projects deficit positions for the next 5 years with the deficit position growing to £0.950million by 2021-22.

The College is investigating cost reduction and income generation options to maintain financial sustainability over both the short and medium term.

Governance statement



We are satisfied that the Governance Statement complies with the Scottish Funding Council guidance and that the content is consistent with the financial statements and the results of our audit work.

The College's Governance Statement explains that the College was compliant with the principles of the 2016 Code of Good Governance for Scotland's Colleges. The reported position is consistent with internal audit's opinion that the College has adequate and effective risk management, control and governance processes to manage its achievement of objectives.

We have not identified any significant issues that would require to be disclosed in the governance statement.

Key facts

- Revenue expenditure was £12.474million and there were capital additions of £0.913million.
- The College reported an underlying operating surplus of £0.053million and an accounting deficit of £0.977million.
- The College achieved its credits target.

Conclusion

This report concludes our audit of Borders College for the year to 31 July 2017. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK) and Ethical Standards.

Scott-Moncrieff
December 2017

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Introduction

Introduction

1. This report summarises the findings from our 2016/17 audit of Borders College (“the College”).
2. We outlined the scope of our audit in the external audit plan that we presented to the Audit Committee in May 2017. The main elements of our work in 2016/17 have been:
 - an interim audit of the College’s key financial systems
 - an audit of the annual report and financial statements;
 - a review of arrangements as they relate to the aspects of wider scope public audit relevant to the College as a ‘small body’; and
 - completion of a minimum dataset of information and an analysis of EU funding that has been agreed with the College and submitted to Audit Scotland.
3. The College is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The weaknesses and 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 of the financial statements 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.
4. We discussed and agreed the content of this report with the Vice Principal – Finance and Resources and the Head of Finance and Procurement. We would like to thank all College staff for their co-operation and assistance during our audit.

Small body provisions

5. The Code of Audit Practice (‘the Code’) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and it is a condition of our appointment that we follow it. The Code recognises that it is not likely to be appropriate or proportionate to apply the full wider scope audit to some small audited bodies.

6. We considered that the 2016/17 audit of Borders College should be carried out under the small body provisions of the Code. Application of the small body provisions resulted in a targeted and tailored wider scope audit for the College comprising: an assessment arrangements for financial sustainability and consideration of the appropriateness of the disclosures in the governance statement.

Management action plan

7. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. We give each recommendation a grading to help the College assess their significance and prioritise the actions required.

Independence

8. We can confirm that we have complied with the Financial Reporting Council’s Ethical Standard. In our professional judgement, the audit process has been independent and our objectivity has not been compromised. In particular, there have been no relationships between Scott-Moncrieff and the College that may reasonably be thought to bear on our objectivity and independence.
9. The audit fee reported in our external audit plan was £14,570. No adjustment to the fee has been required during the course of our audit.
10. As disclosed within the financial statements, the College purchased non-audit services from Scott-Moncrieff in 2016/17. At the request of the College, Scott-Moncrieff provided VAT services attracting a fee of £1,500 during the year. This work did not involve management decision making and was undertaken by the Scott-Moncrieff VAT team, entirely separately from the Public Sector External Audit team.
11. In line with Audit Scotland planning guidance, approval was obtained from the Scott-Moncrieff ethics partner and Audit Scotland before commencing non-audit work.

Adding value through the audit

12. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the College through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the College promote improved standards of governance, better management and decision-making and more effective use of resources.
 13. This report is addressed to both the Regional Board and the Auditor General for Scotland and will be published on Audit Scotland's website: www.audit-scotland.gov.uk.
 14. We welcome any comments you may have on the quality of our work and this report via: www.surveymonkey.co.uk/r/S2SPZBX.
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Annual report and financial statements

Annual report and financial statements

An unqualified audit opinion on the financial statements

The College approved the annual report and financial statements on 7 December 2017. We reported within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on the regularity of expenditure and income; and
- an unqualified opinion on other prescribed matters.

We are satisfied that there are no matters on which we are required to report by exception.

We have nothing to report in respect of the use of the going concern basis of accounting in the preparation of the financial statements.

Introduction

15. The College's annual report and financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. An outline of the respective responsibilities of the College and the auditor in relation to the financial statements is in Appendix 2.
16. In this section, we summarise the issues arising from our audit of the 2016/17 annual report and financial statements.

Good administrative processes were in place

17. The draft annual report and financial statements were of a good standard as were the supporting papers.

18. We received the drafts in line with our agreed audit timetable and our thanks go to all College staff for their assistance throughout our audit.

Our assessment of risks of material misstatement

19. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described below.

Assessed risks of material misstatement and our audit response

1. Management Override

Excerpt from the 2016/17 External Audit Plan: *In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with International Standard on Auditing 240 (ISA 240) - The auditor's responsibilities relating to fraud in an audit of financial statements.*



20. We did not identify any evidence of management override through our audit testing. We reviewed the accounting records and did not identify any significant transactions outside the normal financial control processes. We performed a detailed review of the journals raised and posted throughout the year and at the year-end to identify any unusual transactions or activity. We also reviewed the controls in place over the journal process for any potential weaknesses that could give rise to management override.

Assessed risks of material misstatement and our audit response

2. Revenue recognition

Excerpt from the 2016/17 External Audit Plan: *Under ISA 240 - The auditor's responsibilities relating to fraud in an audit of financial statements there is a presumed risk of fraud in relation to revenue recognition. Practice Note 10 (revised) highlights that in the public sector most entities are net spending bodies and there is a risk of fraud over expenditure. The presumption is that the College could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.*



21. At the outset of our audit we considered the nature of the revenue streams at the College against the risk factors set out in ISA 240. We considered that for Scottish Funding Council (SFC) grant funding the risk of revenue recognition could be rebutted due to a lack of incentive and opportunity to manipulate revenue of this nature. However, we considered the risk of fraud in relation to revenue recognition remained present in all other income streams.
22. In response, we evaluated each material revenue stream, considered the College's revenue recognition policy and carried out testing to ensure this is appropriate and has been applied. We performed detailed testing of each material income stream. We did not identify any evidence of fraud in relation to revenue recognition.

3. Post-employment benefits

Excerpt from the 2016/17 External Audit Plan: *The principal pension schemes to which the College contributes are the Scottish Teachers Superannuation Scheme (STSS) and the Scottish Borders Council Local Government Pension Fund (LGPF).*

The STSS is an unfunded multi-employer scheme and it is not possible to identify the College's share of the underlying assets and liabilities. As a result, the scheme is accounted for as a defined contribution scheme.

In the case of the LGPF, the College's share of the underlying assets and liabilities is identifiable and a net liability is recognised in the accounts. The College reported a net liability of £7.649million as at 31 July 2016 in relation to the scheme, an increase on the £3.917million equivalent position as at 31 July 2015. Given the scale of the liability recognised in relation to the LGPS, a misstatement in the reported position could be material to the College's annual accounts.



23. We reviewed the College's accounting for post-employment benefits and confirmed the College has accounted for both the LGPF and STSS scheme in line with the requirements of the statement of recommended practice Accounting for further and higher education (SORP). We have confirmed the accounting for the LGPF scheme is in line with the actuarial valuation and the actuarial assumptions underpinning the valuation are reasonable and reflective of the College's circumstances.
24. Accounting for the LGPF has a significant impact on the College's financial statements. As at 31 July 2017, the actuary advised a net liability for the scheme of £8.645million (an increase in the previous year's liability of £7.648million). The movement reflects an increase in the liability due to a loss on valuation as assessed by the actuary, service costs and net interest. There was a reduction in the liability due to employer's contributions.

Assessed risks of material misstatement and our audit response

4. Asset Valuations and capital additions

Excerpt from the 2016/17 External Audit Plan: *The College holds a significant level of fixed assets (net book value of £28.002million in 2015/16). Additionally the College expects material capital additions during the year (commitments of £995,000 were disclosed in 2015/16).*

In line with the wider Scottish FE sector, the College adopts a policy of revaluation, whereby land and buildings are measured at fair value. Under the SORP, revaluations must be sufficiently regular so that the carrying value of an asset at the reporting date is not materially different from its fair value. Additionally, the College must assess whether there are indications of impairment of assets at each reporting date.

The College's last formal, external valuation exercise took place in January 2014. Given the level of fixed assets held, a misstatement in the reported valuation could be material to the College's annual accounts.



25. We reviewed the general accounting treatment adopted in relation to the College's land, buildings and other fixed assets as at 31 July 2017. We found the College complied with the SORP; fixed assets have been recognised and measured appropriately and the College's capitalisation policies have been applied consistently.

5. Netherdale campus

Excerpt from the 2016/17 External Audit Plan: *During 2006-07, the College acquired the Scottish Borders (Netherdale) Campus of Heriot-Watt University for a consideration of £4.75m. The cost of acquiring the Netherdale Campus is being repaid to the University over a 17.5-year term commencing April 2009, the date on which the College moved to the refurbished campus.*

The contractual arrangements of the purchase have resulted in relatively complex accounting treatment which includes long and short term creditors being recognised in relation to aspects of the agreement with the University, as well as assets being recognised for the land and buildings themselves.



26. We reviewed the accounting treatment adopted in relation to the Netherdale campus and the related contractual commitments. We found that the approach taken by the College to the asset, deferred consideration and the related contractual arrangements in the 2016/17 financial statements is reasonable and is in accordance with the requirements of the SORP. We raised one material audit adjustment in relation to the accounting for the lifecycle maintenance fund. There was a reclassification of 2016/17 and 2015/16 liabilities within the balance sheet with no impact on the College's reported 2016/17 financial outturn.

Accounting for the Netherdale campus asset

27. Since acquisition and the transfer of title to the College, the Netherdale campus has been recognised as a fixed asset on the College's balance sheet. In accordance with the SORP, the campus has been subject to periodic revaluations and annual reviews of impairment. Given the specialised nature of the related assets, the campus is held at depreciated replacement cost less accumulated depreciation. As at 31 July 2017 the Netherdale campus was valued at £22.976million.

Accounting for the Netherdale campus deferred consideration

28. The financial statements disclose that the College acquired the Netherdale campus for a consideration of £4.75million to be paid over 17.5 years from April 2009. Since acquisition, the College has recognised a liability on the balance sheet reflecting the deferred consideration. The liability was £3.295million as at 31 July 2017, a reduction of £0.237million on 2015/16.

Assessed risks of material misstatement and our audit response

Accounting for contractual obligations on the Netherdale campus agreements

29. At the time of acquisition, the College entered in to 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 as part of the agreement the College and University contribute specified sums to a 'campus lifecycle trust fund'. In practice, the fund is held within a dedicated bank account administered by the College and the related contributions from the University are recognised as liabilities in the College's financial statements.
30. The contract terms state that the campus lifecycle trust fund shall be lodged in a joint name bank deposit. The practical arrangements in place, where the College is the only signatory on the account, are not currently wholly consistent with the contract terms. No issues have been identified with the approach taken to date for administering the bank account. However, the College should consider updating the contracted terms or getting formal confirmation that the approach being taken is accepted by all parties.

Action plan point 1

31. Over the term of the agreement to date the College has recognised a provision on the balance sheet in relation to its obligations under the contracted terms. The value of the estimated provision has been informed by an initial assessment from an independent Quantity Surveyor at the outset of the agreement and periodic reviews by the College and University facilities management teams in the subsequent periods. As time progresses there is a risk that the estimates being made become a less accurate reflection of the College's obligation at each year end. While the adequacy of the provision has been subject to internal review, we consider the College should ensure reassessment by an independent Quantity Survey periodically throughout the life of the agreement.

Action plan point 2

32. After detailed consideration of the accounting around the campus lifecycle trust fund we concluded that the recognition of a provision as a result of the specific contractual circumstances in place was in accordance with the SORP. However, we noted that following the Office for National Statistics reclassification of Scottish colleges as central government bodies in 2013/14, the College had accounted for increases in the contractual liability as accruals of expenditure rather than as a movement on the provision. Additionally, prior to reclassification contributions from the University had been accounted for as a provision in the College's financial statements rather than as a creditor. We considered adjustments were required to the financial statements in respect of these two matters. The financial statements disclose the following prior year adjustments in summary:

Prior year adjustments (£million)	2015/16 statements	Adjustment 1	Adjustment 2	2015/16 restated
Creditors	26.073	(0.283)	0.351	26.141
Other provisions:	0.681	0.283	(0.351)	0.613
Impact on net liabilities	-	-	-	-
Impact on reported outturn	-	-	-	-

33. Due to the nature of the prior year adjustment there was also an impact on the 2016/17 draft figures. The net effect of the prior year and current year adjustments resulted in a reclassification of £0.114million from creditors to provisions as at 31 July 2017, with nil impact on the reported 2016/17 outturn.

Audit differences

34. We identified a number of immaterial disclosure and presentational adjustments during our audit that are reflected in the final annual report and financial statements. In addition, adjustments were made in respect of the following items:
- Reclassification per paragraph 32 with no impact on the reported outturn.
 - Separate disclosure of £0.843million capital additions as assets under construction with no impact on the reported outturn.
 - Various minor amendments made to the remuneration report to ensure full compliance with Government Financial Reporting Manual requirements.

Written representations

35. As is standard practice, we requested the College present a signed representation letter, covering a number of issues, to us at the date of signing the annual report and financial statements.

Group Consideration

36. The College recognises one group body: BC Business Consultants Ltd. The company has been dormant since 2010 and has had no transactions during the year.
37. The College does not present distinct Group and College financial statements as it considers the difference between the Group and College figures to be immaterial. The only consolidating entry required is a £0.01million investment and reserve related to the dormant company.
38. Given the immaterial nature of the consolidated entity we consider the College's approach to group accounts to be reasonable. Our audit approach has equally considered the position of the College and the Group.

Regularity

39. We planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and financial statements. We did not identify any instances of irregular activity. Our procedures included:

- reviewing minutes of relevant meetings;
- enquiring of senior management and the College's solicitors the position in relation to litigation, claims and assessments; and
- performing detailed testing of transactions and balances.

Going concern and subsequent events

40. Auditing standards require us to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements, and to consider whether there are material uncertainties about the College's ability to continue as a going concern which need to be disclosed in the financial statements.
41. The term "subsequent events" is used to refer to events occurring between the year-end date of the financial statements and the date of the auditor's report. ISA 560 - Subsequent events requires us to assess all such matters before signing our audit report.
42. In order to gain assurance on these matters our work has included:
- reviewing bank facilities;
 - reviewing budget and cash flow projections;
 - reviewing minutes of post balance sheet board meetings;
 - enquiries of senior management and the College's solicitors;
 - consideration of future SFC funding; and
 - performing sample testing of post balance sheet transactions.
43. The Regional Board considers that the College has adequate resources to continue its business activities for the foreseeable future. In our opinion the going concern assumption is appropriate. We did not identify any subsequent events which require amendments or disclosures to be made in the financial statements.

Performance report

44. We have considered the information given in the performance report that forms part of the College's annual report and financial statements. We found that the information given in the performance report is consistent with the financial statements and that report had been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder.

Governance statement

45. The College's Governance Statement explains that the College was compliant with the principles of the 2016 Code of Good Governance for Scotland's Colleges. The reported position is consistent with internal audit's opinion that the College has adequate and effective risk management, control and governance processes to manage its achievement of objectives.

46. We are satisfied that the information given in the Governance Statement is consistent with the financial statements and has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder.

Remuneration report

47. In our opinion, the audited part of the remuneration and staff report has been properly prepared.

Qualitative aspects of accounting practices and financial reporting

48. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual report and financial statements. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies and we consider these to be appropriate to the College
The timing of the transactions and the period in which they are recorded.	We did not identify any material concerns over the timing or the period in which they were recognised.
The appropriateness of accounting estimates and judgements used.	The accounting estimates and judgements used are reasonable. Significant estimates and judgements are required over fixed asset valuations, depreciation rates, pension liabilities and the valuation of provisions. Where available, the College has utilised the work of independent experts or industry practice to support the estimate applied.
The potential effect on the financial statements of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed.	We have not identified any uncertainties including any significant risk or required disclosures that should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions and the extent that these transactions are separately disclosed in the financial statements.	The contractual arrangements surrounding the historic Netherdale campus purchase have resulted in relatively complex accounting treatment, as reported from paragraph 26. We found that the approach taken by the College to the asset, deferred consideration and the related contractual arrangements in the 2016/17 financial statements is reasonable and is in accordance with the requirements of the SORP. We identified no further unusual transactions in the year that were not adequately disclosed in the financial statement.

Qualitative aspect considered	Audit conclusion
Apparent misstatements in the performance report or inconsistencies with the financial statements.	No material misstatements or inconsistencies with the financial statements were identified.
Any significant financial statement disclosures to bring to your attention.	We did not identify any significant financial statement disclosures to bring to your attention.
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered.

An overview of the scope of our audit

49. We detailed the scope of our audit in our external audit plan. Our 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.
50. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise. At the planning stage, we identified the significant risks that had the greatest effect on our audit. We then designed audit procedure to mitigate these risks. We did not identify any significant risks in relation to the wider scope audit dimensions in 2016/17 and we did not identify any additional significant risks, over and above those reported in our external audit plan, during our work.
51. Our standard audit approach is to perform a review of the key financial systems in place, substantive tests and detailed analytical review. We tailored audit procedures, including those designed to address significant risks, for the audit fieldwork team to complete and the results reviewed by the audit manager and audit partner. We have applied the concept of materiality throughout the audit.

Our application of materiality

52. 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.

53. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. Our initial assessment of materiality for the financial statements was £0.2million, approximately 1.7% of the College's forecast expenditure. No change to the assessed level of materiality was required during our audit.
54. We set a level of performance materiality for each area of work based on our risk assessment. We performed audit procedures on all transactions, or groups of transactions, and balances that exceed performance materiality.

Area risk assessment	Weighting	Performance materiality
High	45%	£0.09million
Medium	60%	£0.12million
Low	75%	£0.15million

55. We agreed to report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements.
 - Uncorrected misstatements over £5,000.
 - Misstatements below £5,000 that we believe warrant reporting on qualitative grounds.

3

Financial sustainability

Financial sustainability



The College has arrangements in place for budget setting and has developed a medium term financial strategy.

The 2017/18 budget is forecasting a deficit position of £0.106million. The medium term financial forecast currently projects deficit positions for the next 5 years growing to £0.95million by 2021-22.

The College is investigating cost reduction and income generation options to maintain financial sustainability over the short and medium term.

56. Financial sustainability looks to the medium and longer term, to consider whether the College's planning processes support the future delivery of services.

Financial Planning

An underlying deficit operating position forecast for 2017/18

57. The College's 2017/18 revenue budget, as reported to the Regional Board in June 2017, forecasts an underlying operating deficit. The initial budget was prepared before the full impact of national pay bargaining could be considered. As more accurate forecasts became available, a Chair's Committee was held in August 2017 to review the updated budget position. The updated 2017/18 budget projects an operating deficit of £0.106million.

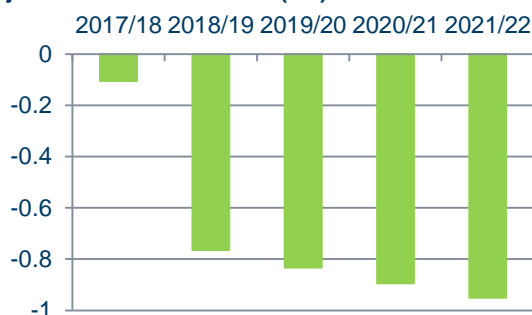
Assumptions for the 2017/18 budget appear reasonable

58. The College based the budget for 2017/18 on the most reliable information available at the time of preparation. Key assumptions have included:
- SFC core funding of £7.533million.
 - Increased staff costs of £0.665million
 - No donations are expected to the Borders Further Education Trust ('BFET').
 - Income from BFET to increase to £0.395million based on capital plans and correspondence to date.
59. The College delivered 25,113 credits in the year to July 2017, against a target of 25,095. The credits target for 2017/18 is 25,387.

Medium term financial plans forecast deficits

60. The College produces a Financial Forecast Return (FFR) for the SFC each year. As requested by the SFC, the 2017/18 FFR forecasts income and expenditure for the five-year period to 2021/22, supported by a sensitivity analysis. The projections incorporate planned capital expenditure and expected funding from the BFET.
61. The chart below shows that the College is forecasting a deficit position for the next five years, growing to £0.95million by 2021/22.

Projected deficits to 2021/22 (£m)



62. As required, the FFR was prepared using significant assumptions advised by the SFC:
- Core funding on flat cash settlements until 2020/21, thereafter 2% increase.
 - Increase of 1% per annum in support and teaching staff costs.
 - Increase of 1.5% per annum in non-staff costs.
 - Funding to support national bargaining to fall to 67% in 2020/21 and 33% in 2021/22.

- No changes in student support funding.
 - Stable student numbers.
 - Commercial and non-SFC funding to reduce for known changes.
- 63.** Management are currently investigating cost reduction and income generation options to support the achievement of a balanced position over the short and medium term.
- 64.** Given the ongoing scrutiny and work being undertaken by the College to analyse and respond to the identified financial challenges, we have not raised a formal recommendation in relation to this area. Instead, we will scrutinise this area in detail as part of ongoing audit work and report further as appropriate.

Estates strategy

- 65.** The SFC is currently carrying out a condition survey of all of Scotland's colleges, to prioritise the allocation of funding between regions. The College has secured additional capital funding in recent years through successful applications to the BFET to cover capital expenditure. The College expects to make further applications to the BFET to support capital projects in the coming years.

Workforce planning

- 66.** The College currently has a HR and Staff Development Strategy, which supports the delivery of "Our Strategy - Towards 2020", the College's Strategic Plan covering the period 2016-2020. The College recognises that staff costs form the majority of recurring expenditure. The College has plans in place to further its workforce planning activity in order to inform future analysis on financial sustainability.

7

Appendices

Appendix 1: Management action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit. The action plan details the officer responsible for implementing each recommendation and an implementation date. The College should assess each recommendation for wider implications before approving the action plan.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work and may not be all that exist. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. Communication of the matters arising from the audit of the annual report and accounts 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.

Action plan grading structure

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

Grade 5	Very high risk exposure – major concerns requiring Board of Management attention
Grade 4	High risk exposure – material observations requiring senior management attention
Grade 3	Moderate risk exposure – significant observations requiring management attention
Grade 2	Limited risk exposure – minor observations requiring management attention
Grade 1	Efficiency / housekeeping point

No.	Issue & recommendation	Management comments
1.	<p>Campus lifecycle trust fund</p> <p>The contract terms state that the campus lifecycle trust fund shall be lodged in a joint name bank deposit. The practical arrangements in place, where the College is the only signatory on the account, are not currently wholly consistent with the contract terms.</p> <p>No issues have been identified with the approach taken to date for administering the bank account. However, the College should consider updating the contracted terms or getting formal confirmation that the approach being taken is accepted by all parties</p>	<p>Response: Agreed. Confirmation will be sought from Heriot-watt University that current arrangements are accepted.</p> <p>Action owner: Vice Principal – Finance and Resources</p> <p>Due Date: 31 December 2017</p>
Rating		
Grade 2		
Para		
30		

No.	Issue & recommendation	Management comments
2.	<p>Estimation basis for the Netherdale provision</p> <p>Over the term of the agreement to date the College has recognised a provision on the balance sheet in relation to its obligations under the contracted terms. The value of the estimated provision has been informed by an initial assessment from an independent Quantity Surveyor at the outset of the agreement and periodic reviews by the College and University facilities management teams in the subsequent periods.</p> <p>As time progresses there is a risk that the estimates being made become a less accurate reflection of the College's obligation at each year end. While the adequacy of the provision has been subject to internal review, we consider the College should ensure reassessment by an independent Quantity Survey periodically throughout the life of the agreement</p>	<p>Response: Agreed. Assessment has been scheduled to take place in 2018-19, in accordance with Campus Management Committee direction.</p> <p>Action owner: Vice Principal – Finance and Resources</p> <p>Due Date: 31 July 2019</p>
Rating		
Grade 3		
Para		
31		

Appendix 2: Respective responsibilities

Regional Board responsibilities

In accordance with the Further and Higher Education (Scotland) Act 1992, the Regional Board is responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each year.

The Regional Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and the Group and enable it to ensure that the financial statements are prepared in accordance with the Further and Higher Education (Scotland) Act 1992, the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education Institutions and other relevant accounting standards.

Within the terms and conditions of the Financial Memorandum agreed between Scottish Funding Council and the Regional Board of the College, the Board through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the College and the Group and the surplus or deficit and cash flows of the group for that year.

In preparing the financial statements the Regional Board is required to:

- select suitable accounting policies, then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on the going concern basis unless it is inappropriate to assume that the College will continue in operation. The Board is satisfied that it has adequate resources to continue in operation for the foreseeable future and for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Regional Board should take reasonable steps to:

- ensure that funds from Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the SFC and any other conditions which SFC may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place sufficient to safeguard public funds and funds from other sources;
- safeguard the assets of the College and prevent and detect fraud; and
- secure the economic, efficient and effective management of the College's resources and expenditure.

Auditor responsibilities

Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland and guided by the auditing profession's ethical guidance.

Opinion on financial statement

We audit the financial statements and give an opinion on whether they:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2017 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Conclusions relating to going concern

We are required to report to you if we consider:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the college has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Opinion on regularity

We confirm whether, in our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinion on other prescribed matters

We express an opinion on whether:

- the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council;
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

Matters on which we are required to report by exception

We are also required to report if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part 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.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code recognises that planned audit work should be risk based and proportionate to the nature and size of an audited body. The Code recognises that it is not likely to be appropriate or proportionate to apply the full wider scope audit to some small audited bodies.

We consider that the audit of Borders College should be carried out under the small body provisions of the Code. We reached this conclusion through our assessment of:

- the relative size of the College;
- the relative simplicity of the College's functions; and
- the College's risk profile, as informed through discussions with officers.



Scott-Moncrieff
business advisers and accountants