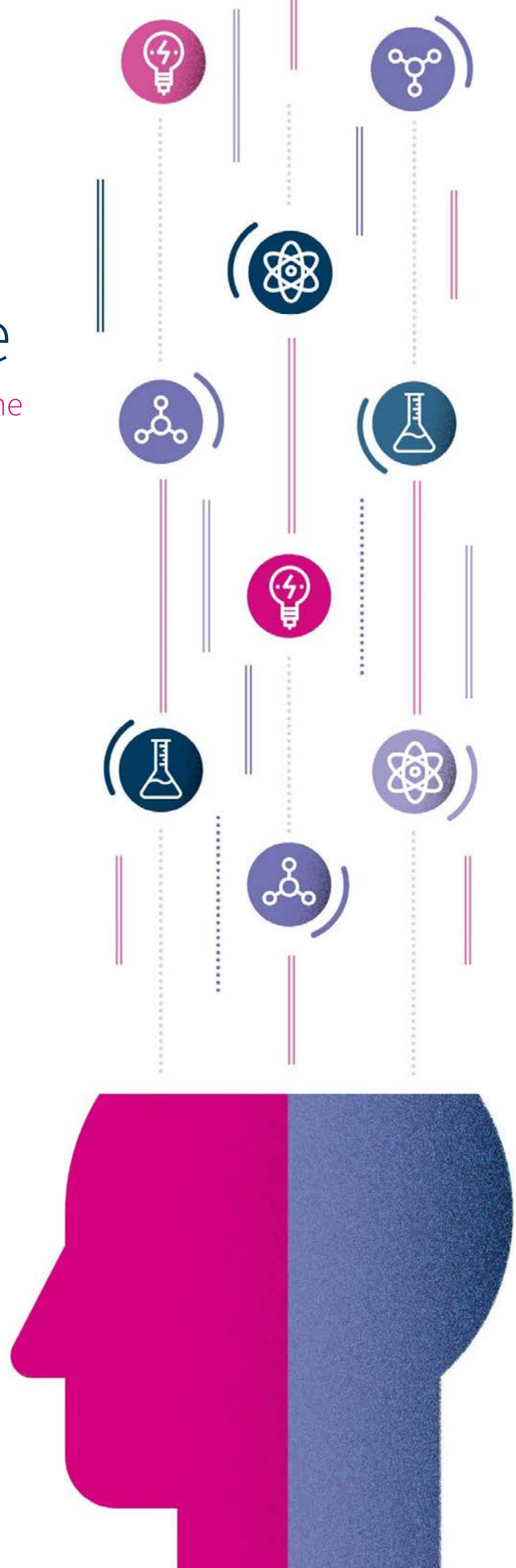
Scott-Moncrieff
business advisers and accountants

Borders College

2018/19 Annual Audit Report to the Board of Management and the Auditor General for Scotland

December 2019



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1. Key messages

Annual report and accounts audit

The annual report and financial statements for the year ended 31 July 2019 were approved by the Board on 5 December 2019. The financial statements report a deficit of £1.038million before adjusting for the actuarial loss in respect of pension schemes and an underlying operating deficit of £0.164million.

We reported within our independent auditor's report an unqualified opinion on the financial statements, the regularity of transactions and on other prescribed matters. There are no matters which we are required to report by exception.

Our thanks go to management and staff for their assistance with our work.

Wider scope audit

As outlined in our External Audit Plan, our annual audit work in respect of our wider scope audit responsibilities was restricted to:

- Audit work to allow conclusions on the appropriateness of the disclosures in the Governance Statement; and
- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

Our conclusions and key observations are set out below:

Governance statement

- We have reviewed the Borders College governance statement and have confirmed that it is consistent with the information gathered during the course of our audit work. Additionally, we have confirmed that the disclosures made are in line with the Government Financial Reporting Manual.
- The College has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant issues which would require to be disclosed in the governance statement.

Financial sustainability

- The College has clear and proactive arrangements in place for short, medium and long term financial planning although it continues to face significant challenges in operating within tight financial parameters. Work continues to reach a long term sustainable position.
- The latest Financial Forecast Return (FFR) reports actual financial performance for 2018/19, the budget for 2019/20 and forward forecasts through to 2023/24. An operating surplus has been reported in all five years but recognises that increasing efficiencies must be made in order to achieve this. The FFR requires £0.947million of savings to be delivered over the next five years reflecting the on-going challenges the College continues to face.

Conclusion

This report concludes our audit for 2018/19. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Scott-Moncrieff
December 2019

2. Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of Borders College for 2018/19.

We carried out our audit in accordance with Audit Scotland's Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.

We have agreed to designate the College's Regional Board as "those charged with governance", reporting in via the College's Audit Committee.

Introduction

1. This report summarises the findings from our 2018/19 audit of Borders College ("the College").

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

   - an audit of the 2018/19 annual report and financial statements, and related matters;
   - consideration of the College's arrangements against the audit dimensions within the Code of Audit Practice (Exhibit 1). As detailed in section 4, we do not deem the application of full wider scope to be appropriate and therefore have restricted the scope of our work;
   - monitoring the College's participation in the National Fraud Initiative (NFI); and
   - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice

3. The College is responsible for preparing an annual report and financial statements which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified 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 annual report and 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. 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.

5. We discussed and agreed the content of this report with the Vice Principal Finance and Corporate Services. We thank all management and staff for their co-operation and assistance during our audit.

Confirmation of independence

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

7. We confirm that we complied with the Financial Reporting Council's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.

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

Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to Borders 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 Borders College promote improved standards of governance, better management and decision making and more effective use of resources.

Feedback

10. Any comments you may have on the service we provide; the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: www.surveymonkey.co.uk/r/S2SPZBX

11. This report is addressed to the College and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

3. Annual report and financial statements

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.

In this section we summarise the findings from our audit of the 2018/19 annual report and financial statements.

Annual report and financial statements

An unqualified audit opinion on the annual report and financial statements

We reported unqualified opinions on the annual report and financial statements for the year ended 31 July 2019 within our independent auditor's report. We identified one material adjustment to the valuation of non-current assets to remove the proportion of recoverable VAT that has been capitalised (paragraph 27).

There were delays in the delivery of some aspects of the financial statements and working papers which has impacted audit timescales. That said, we are pleased to report positive working relationships and engagement with the new Borders College finance team and noted improvements in their preparedness compared to the previous year. Our thanks go to management and staff at the College for their assistance with our work.

Arrangements are in place to enable the annual report and financial statements to be submitted to the Scottish Funding council and Auditor General for Scotland by the 31 December deadline.

Overall conclusion

An unqualified audit opinion on the annual report and financial statements

12. The annual report and financial statements for the year ended 31 July 2019 were considered by the Audit Committee on 21 November and were approved by the Board on 5 December 2019. We reported within our independent auditor's report:

    - An unqualified opinion on the financial statements;
    - An unqualified opinion on regularity; and
    - An unqualified opinion on other prescribed matters.

13. We are also satisfied that there were no matters which we are required to report by exception.

Good administrative processes were in place

14. We received the unaudited annual report and financial statements and supporting papers of a good standard. There were delays in the delivery of some aspects of the financial statements and working papers which has impacted audit timescales, but we are working through these proactively and positively with management.

15. Arrangements are in place to enable the annual report and accounts to be submitted to the Scottish Funding Council and Auditor General for Scotland by the 31 December 2019 deadline. Our thanks go to staff at the College for their assistance with our work.

Our assessment of risks of material misstatement

16. The assessed risks of material misstatement described in Exhibit 2 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 annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described in Exhibit 2.

Exhibit 2 – Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements.

Excerpt from the 2018/19 External Audit Plan

17. We have not identified any indications of management override in the year. We have reviewed the College's accounting records and obtained evidence to ensure that transactions were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

2. Revenue recognition

Under ISA (UK) 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. The presumption is that the College could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

Excerpt from the 2018/19 External Audit Plan

18. At the planning stage of our audit, we considered the nature of the revenue streams at the College against the risk factors set out in ISA (UK) 240. We identified that for the Scottish Funding Council (the SFC) grant funding, the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate revenue of this nature. We concluded, however, the risk of fraud in relation to revenue recognition is present in all other income streams.

19. For all non-SFC revenue streams, we have gained reasonable assurance over the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. We considered the controls in place over revenue accounting and conducted substantive testing on all material non-SFC revenue streams to confirm that revenue recognition policy is appropriate and consistently applied throughout the year.

3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "*The Audit of Public Sector Financial Statements*" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

Excerpt from the 2018/19 External Audit Plan

20. While we did not suspect incidences of material fraud and error, we evaluated each type of expenditure transaction and documented our conclusions. We have gained reasonable assurance on the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements. To inform our conclusion, we carried out testing to confirm that the College's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

4. Voluntary severance and settlements

At the time of writing, four former members of staff have received payments in the year related to their departure from the College. Two of these relate to redesign of service delivery and two relate to specific, individual circumstances. There is a risk that the costs associated with such settlement/severance agreements have not been correctly approved, reflected in the financial statements, and the appropriate disclosures are not included.

Excerpt from the 2018/19 External Audit Plan

21. We reviewed all four of these agreements in detail during our interim work in July 2019. In all cases, we saw a clear internal review and approval process was in place. There was also evidence of clear SFC engagement, involvement and approval for the terms of these agreement, with particular emphasis and focus on the individual agreements related to specific circumstances (which by their nature meant they were agreed within a framework but taking cognisance of their individual merits). We have no exceptions to report in respect of this area.

Our application of materiality

22. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements.

23. Our initial assessment of materiality for the annual financial statements was £235,000. We recalculated materiality on receipt of the draft financial statements and assessed fieldwork materiality to be £260,000. This equates to approximately 1.8% of the College's 2018/19 gross expenditure. We consider this to be a principal consideration for the users of the financial statements when assessing the performance of the College.

Performance materiality

24. Performance materiality is the amount set by the auditor for each financial statement area, to reduce to an appropriately low level the probability that collectively any uncorrected and undetected misstatements are less than materiality for the financial statements as a whole.

25. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the following table:

	Area risk assessment £'000		
	High	Medium	Low
Performance materiality	117	143	182

26. We agreed to report all material corrected misstatements, uncorrected misstatements with a value in excess of £12,500 and other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds. We would also report on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Audit differences

27. We identified two material adjustments to the financial statements. FRS102 permits the capitalisation of irrecoverable VAT as part of the cost of a non-current asset. However, both the opening and closing valuation of land and buildings in the draft financial statements reflected the full (recoverable and non-recoverable) VAT charge. Management have estimated the level of recoverable VAT included in the valuation of land and buildings as at 31 July 2018 and a prior period adjustment of £0.444million has been made to the net book value of land and buildings. Using a consistent approach, an adjustment of £0.418million has been made to the valuation of land and buildings as at 31 July 2019.

28. We identified one unadjusted error to the cost of additions capitalised in 2018/19 which has no material impact on the financial position. Full details are included in Appendix 3.

29. In addition, we identified some disclosure and presentational adjustments during our audit which have been reflected in the updated set of financial statements.

An overview of the scope of our audit

30. The scope of our audit was detailed in our External Audit Plan, which was presented to the College in May 2019. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the College. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

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

32. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit management team. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Other matters identified during our audit

33. During the course of our audit we noted the following:

Other information in the annual report and accounts

34. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's report thereon. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.

The performance report

35. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It comprises an overview of the organisation and a detailed summary of how the entity measures performance.

36. We have concluded that the performance report has been prepared in accordance with directions from the SFC and is consistent with the financial statements.

The accountability report

37. The accountability report is required in order to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report (including the governance statement), a remuneration and staff report, and a parliamentary accountability report.

Governance statement

38. We reviewed the Annual Governance Statement and have confirmed that it is consistent with the information gather during the course of our audit work. We have confirmed that the disclosures made are in line with the Government Financial Reporting Manual and the SFC Accounts Direction. We provide further detail on our work and findings within the Wider Scope section of our report (section 4).

Remuneration report

39. Management experienced delays in collating the necessary information to prepare the Remuneration report and as a result, this was not provided until the fourth week of our audit.

40. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared.

Regularity

41. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

Pension Liability

42. As at 31 July 2019, the net LGPS pension liability was £7.708million, an increase of £2.371million in comparison to the net pension liability as at 31 July 2018 (£5.337million).

43. Due to the significant movement in comparison with the prior year, we have conducted a more detailed analysis of the assumptions put in place by the actuary.

44. The movement at the College is in line with movements across the sector which are primarily as a result of changes in actuarial assumptions and related scheme and market conditions.

Accounting and internal control systems

45. The College has adequate systems in place to record, process, summarise and report financial and other relevant data. While we have not identified any significant weaknesses or governance issues in the accounting and internal control systems, we did identify a number of areas for improvement regarding the College's assets management controls and the maintenance of the asset register.

Asset management controls

46. Disposal forms must be completed for all relevant assets and passed to Finance to process in a timely manner. Finance highlighted instances in 2018/19 of disposal forms for assets that were not listed on the asset register, suggesting that the asset register was not as robustly managed as expected.

47. There were three IT assets on the asset register that could not be physically verified as they are either no longer in use or not easily identifiable. These assets have a nil net book value and so the impact on the financial statements is minimal.

48. We physically verified two IT assets that could not be traced to a specific entry on the asset register (potentially due to issues with detail in the register). The expected net book value of such assets is below our reporting threshold, however this indicates a weakness in controls.

49. Management have not undertaken an asset verification exercise to confirm whether assets are still in use. The asset register currently includes £2.2million of assets (cost) that have a nil net book value. Regular asset verification and review of the asset register against other registers (e.g. the IT register) is vital to ensuring this remains accurate, up to date and reliable. The College has acknowledged this and intends to undertake a verification exercise in 2019/20.

50. The asset register does not always include sufficient detail to enable the timely identification of physical assets. Descriptions can be vague, asset tagging is not used as standard, and key details such as quantity, location and make/model have sometimes been omitted.

51. Whilst we do not deem these issues to have a material impact on the financial statements, these weaknesses in controls pose a risk to asset control and the accuracy of the financial statements and should be addressed in a timely manner. Our recommendations have been outlined at Appendix 2 along with management's agreed actions.

Action plan point 1

Follow up of prior year recommendations

52. As part of our audit we have followed up the agreed audit recommendations from prior years which were yet to be implemented. Detail on these recommendations is included in the action plan at Appendix 2.

National Fraud Initiative

53. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.

54. The NFI exercise produces data matches by comparing a range of information held on various public sector bodies' system to identify potential fraud and error. Bodies are required to investigate

these matches and record appropriate outcomes based on their investigations.

55. Participating bodies were required to submit data in October 2018 and received matches for investigation in January 2019. Match investigation work was to be largely complete by 30 September 2019 and the results recorded on the NFI system.

56. In June 2019 we assessed the NFI match progress to date and submitted the output to Audit Scotland for review. We concluded in June 2019 that further work was required, with progress having been adversely impacted by staffing and resourcing issues.

57. Further progress has since been made and match investigation work has been completed. Following the changes in the finance team, responsibility for managing NFI have been clearly allocated to support effective management and oversight of NFI activity since earlier in 2019 and going forward.

Qualitative aspects of accounting practices and financial reporting

58. 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 financial statements. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the accounting policies, which are disclosed in the financial statements and are satisfied with the appropriateness of the accounting policies used. However, we identified that additional disclosure is required to clarify that an estimate of irrecoverable VAT is recognised in the valuation and costs of non-fixed assets.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of other accounting estimates and judgements used in the preparation of the financial statements. Estimates have been made in relation to the valuation and depreciation of property, plant and equipment and pension provisions. Where available, the College has utilised the work of independent experts or industry practice to support the estimate applied. However, we identified one issue regarding the inclusion of recoverable VAT in the value of land and buildings. An adjustment has been made to the financial statements to amend this, as reflected in Appendix 3. Pension estimates have been informed by advice from qualified, independent experts. We evaluated the competence, objectivity and capability of managements' experts in line with the requirements of ISA (UK) 500.
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2019/20. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the College will continue to operate for at least 12 months from the signing date.
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the financial statements.

Qualitative aspect considered	Audit conclusion
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant financial statements disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statements disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit, albeit our timetable was impacted as set out above.

4. Wider scope

Following consideration of the size, nature and risks of the College, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope has therefore been restricted to:

- **Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and**
- **Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.**

Wider scope conclusions

Governance statement

We have reviewed the Borders College governance statement and have confirmed that it is consistent with the information gathered during the course of our audit work. We have confirmed that the disclosures made are in line with the Government Financial Reporting Manual.

The College has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant issues which would require to be disclosed in the governance statement.

Financial sustainability

The College has clear and proactive arrangements in place for short, medium and long term financial planning, although it continues to face significant challenges in operating within tight financial parameters. Work continues to reach a long term sustainable position.

The latest Financial Forecast Return (FFR) reports actual financial performance for 2018/19, the budget for 2019/20 and forward forecasts through to 2023/24. An operating surplus has been reported in all five years but recognises that increasing efficiencies must be made in order to achieve this. The FFR requires £0.947million of savings to be delivered over the next five years, reflecting the on-going challenges the College continues to face.

Our approach to the wider scope audit

59. Our approach to the wider scope audit (as set out in our 2018/19 External Audit Plan) builds upon our understanding of the College which we developed from previous years, along with discussions with management and review of minutes and key strategy documents.

60. During our audit we also considered the following risk areas as they relate to the College:

- EU withdrawal
- Changing landscape of public financial management
- Dependency on key suppliers
- Openness and transparency

Impact of EU withdrawal	The College has been able to demonstrate consideration of the potential impact on staff, students, funding and legislation. The College has completed a Brexit risk assessment focusing on staff and students and has identified a small number of both who will be impacted. The College is continuing to monitor the situation to minimise the all round impact. In addition, the College has participated in number of different forums with both the SFC and Colleges Scotland to ensure it remains informed about potential impacts to the sector as they develop.

Changing landscape of financial management	The Scottish Government's five-year outlook for the Scottish budget as set out in the Medium-Term Financial Strategy provides useful context for financial planning. The new budget process places greater emphasis on assessing outcomes and the impact of spending. We have considered the impact on financial planning and budgeting below.

Dependency on key suppliers	Following the collapse of major infrastructure companies, it became apparent that public sector bodies face significant risks where key suppliers are experiencing difficult trading conditions. The College identified one key supplier at the planning stage of our audit, SHARC Caledonia, who provides a specialist energy system for the College. SHARC Caledonia entered administration on 24 October 2019 and the College has since ceased to use this energy system. The College is in contact with other members of the Special Purposes Vehicle entity for provision of continuous service, and there has been minimal impact on service delivery during this period, with close management of the financials and minimisation of such impact by the Finance Team. The College is a member of Advanced Procurement for Universities and Colleges (APUC) Ltd which is the Procurement Centre of Expertise for 62 Universities and Colleges. APUC Ltd works collaboratively with Universities and Colleges in setting up contracts on behalf of the Higher and Further Education Sectors in Scotland and risk assessing suppliers. Due to this centralised approach, the College has transferred and shared the risk in respect of dependency on key suppliers.

Openness and transparency	There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. We consider Borders College to exhibit aspects of good practice with respect to openness and transparency arrangements through the following; • Minutes and papers (where appropriate) for the Board and supporting committees are published on the College's website. • Key publications including the annual report and accounts, corporate plan and business plan are available on the College's website; and • Up to date registers of interests are available on the College's website covering all Board members.

Governance statement

Our audit opinion considers whether the Governance Statement has been prepared in accordance with the Government Financial Reporting Manual and the SFC Accounts Direction and is consistent with the financial statements.

61. We have reviewed the Borders College governance statement and have confirmed that it is consistent with the information gathered during the course of our audit work. We have confirmed that the disclosures made are in line with the Government Financial Reporting Manual.

62. We have also reviewed the governance statement to confirm that it is in line with Audit Scotland's guidance for best practice, and have noted a few considerations for the College to consider to support continuous improvement into 2019/20.

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the College is planning effectively to continue to deliver its services or the way in which they should be delivered.

Significant audit risk

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

Financial sustainability

As is the case across the sector, the financial sustainability of the College remains finely balanced. The College is currently working through detailed budgets and projections, taking account of pressure factors such as cost inflation, national pay bargaining implications (unresolved as at time of writing), and general pay uplifts. Whilst 2018/19 is expected to be a positive year in terms of achieving financial balance, as replicated across the medium term FFR position, this is subject to a range of risks and uncertainties which could adversely impact the organisation.

Excerpt from the 2018/19 External Audit Plan

64. Colleges now prepare five year financial forecasts as part of the FFR process. In seeking to achieve the use of consistent assumptions across Scotland's further education sector, the SFC has developed a set of common, indicative assumptions for Colleges to use when developing their FFR. These have been further explored below.

65. The College's FFR projects a surplus in all five years. However, this requires £0.947million of savings to be delivered over the next five years. The College will continue to develop plans throughout 2019/20 as it focuses on achievement of this objective. Our work and conclusions on the budget and financial forecasts for 2019/20 onwards is set out below and notes the ongoing challenges the College continues to face.

Borders College financial performance in 2018/19

66. The Statement of Comprehensive Income for 2018/19 recorded a deficit before other gains and losses of £1.038 million, equating to 7.75% of the College's total income. This is due to a larger than anticipated actuarial loss for the year.

67. The College's 2018/19 budget was set with an initial deficit of £0.050million. The College has faced difficult financial circumstances with significant increases in staff costs due to National bargaining and increases in other operating expenses due to increased premise costs.

68. The College's financial outturn in 2018/19 is a decline from the performance in 2017/18. In 2017/18 a £0.076 million deficit before other gains and losses was achieved in comparison to the £1.038million deficit in 2018/19.

69. The College's reserves position has improved, with total reserves increasing from negative £0.376million in 2017/18 to reserves of £0.713million in 2018/19.

Financial Planning

70. As a direct result of National Bargaining and harmonisation giving risk to additional unfunded payroll costs, coupled with an unconfirmed increase in employer pension costs, Scotland's College sector is currently facing an extremely challenging financial situation.

71. As noted above, Colleges are required to complete five year financial forecasts through their FFR. The returns require standard information from all colleges, based on common assumptions and contribute to the SFC financial health monitoring framework.

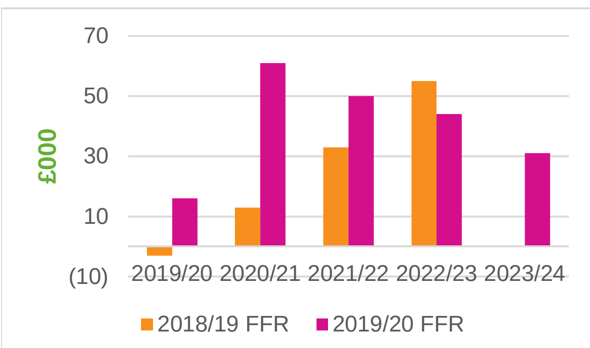
72. Assumptions to be used in the preparation of FFR's include;

- Financial projections for 2018/19 should be based on the funding allocation announced in May 2019.
- 2018/19 redistribution of funds has not been carried forward into 2019/20
- Credits will remain stable until 2021/22 but will reduce by 2.3% in 2022/23 with the loss of ESF funded places.
- Additional pay and harmonisation costs are added to the main grant in 2019-20, and from 2020-21 will return to formula funding.
- Student support funding requirements will be fully met for future years.
- Capital maintenance funding will be based on the 2019-20 allocation.
- Colleges are expected to deliver savings of at least 3% per annum.

- Staff costs will reflect: the lecturing staff agreement; agreed cost of living increases and public sector pay policy; no assumed increase in social security costs; known increases in employer pension contribution rates; and funding for the STSS increase in contributions.
- Funding has not been assumed to cover inflationary pressures and therefore Colleges are expected to continue delivering efficiency savings of at least 3% per annum.

73. The FFR shows an operating surplus in all five years but recognises that increasing efficiencies must be made to achieve this, reflecting an increasingly challenging long term position. Result of the 2019/20 FFR are shown in Exhibit 3 alongside the equivalent projections from the 2018/19 FFR.

Exhibit 3: Projected underlying surplus/(deficit)



74. The Financial Forecast Return was presented to the Chair's Committee in September 2019 and the assumptions were subject to challenge and scrutiny.

75. Scenario planning has been completed as part of the financial planning process. The scenarios which were modelled include:

- Cost increases above FFR assumptions – relating to pay, pensions and National Bargaining;
- Credit performance – considering both over and under performance and the different actions that may be required;
- Income variation – from the SFC and other source of income;
- Impact of digitalisation of delivery
- Change in school senior phase delivery
- SRU does not support rugby academy and APP
- Universities aggressively recruit undergraduates - HNC/D numbers decline
- Impact of changes regarding CITB
- HWU signal withdrawal from SBC campus
- Significant estates incidents

76. The impact of these scenarios has only been included for the next three years as there is deemed to be too much uncertainty beyond 2022.

77. Whilst the FFR indicates a surplus in 2019/20 and future years, the underlying position is increasingly challenging and the plan requires £0.947million of savings to be delivered over the next five years. The College has acknowledged that action is needed now to support longer-term financial sustainability.

78. The College plans to undertake a review of curriculum delivery during 2019/20. Bottom-up costing will be used to inform budgets, and analysis will be performed to identify areas that are the least efficient or provide the lowest contribution.

79. Borders College also plans to invest in digitalisation of teaching delivery and in reviewing its workforce model to further increase efficiencies.

80. The College is putting plans in place in 2019/20 for savings across the next three years to ensure that the College can reach its ambitious savings targets. We will continue to monitor development and delivery during the 2019/20 audit to ensure appropriate and timely action is taken.

SoSEP Investment

81. Borders College, in partnership with Dumfries and Galloway College, is currently undergoing an investment of just over £6.6 million as part of plans approved by the South of Scotland Economic Partnership (SoSEP). The investment aims to enable the creation of a digital learning platform and infrastructure that aims to provide access to learning opportunities for individuals of all ages, irrespective of location.

82. As part of our 2018/19 audit we have followed up on the progress of this investment.

83. Borders College has now completed the construction of the Science, Technology, Engineering and Maths (STEM) Hub at the Hawick

campus. This is set to be part of a network of hubs across the South of Scotland.

84. In addition, October 2019 saw the College deliver the first remote learning sessions. These are aimed to improve access to specialised subjects across the South of Scotland. Student response to the first sessions has been positive.

5. Appendices

Appendix 1: Respective responsibilities of the College and the Auditor

Responsibility for the preparation of the annual report and financial statements

Within the terms and conditions of the financial memorandum between the SFC and the Regional Board of the College, the Board, through the Principal, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the College and the surplus or deficit for that year.

In preparing the financial statements the Board is required to:

- select suitable accounting policies and 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 also responsible for:

- keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements comply with the Further and Higher Education (Scotland) Act 1992, together with the Financial Memorandum issued thereunder, and are presented in accordance with the Accounts Direction issued by the SFC

Auditor responsibilities

We audit the annual report and 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 SFC of the state of the body's affairs as at 31 July 2019 and of its surplus/deficit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006;
- 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;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

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

- proper account records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the governance statement does not comply with Scottish Funding Council requirements.

Wider scope 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 of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

We have concluded that the full application is not appropriate due to the size of the organisation. As part of our annual audit we consider and report against:

- appropriateness of the disclosures in the governance statement; and
- financial sustainability of the body and the services that it delivers over the medium to longer term.

Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

Non-audit services

At the request of the College, Scott-Moncrieff provide VAT/tax services during the year totalling £3,250. This work did not involve management decision making and was undertaken by the Scott-Moncrieff specialist team, entirely separately from the Public Sector External Audit team.

In line with Audit Scotland planning guidance, approval was obtained from the Scott-Moncrieff ethics partner and Audit Scotland before commencing non-audit work.

Confirmation of independence

We confirm that we have complied with the FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent, and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the College, its Board or senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Management Action plan

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

Action plan grading structure

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

The rating structure is summarised as follows:

Grade	Explanation
Grade 5	Very high risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring 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.

Current year action plan

Action plan point	Issue & Recommendation	Management Comments
1. Asset management controls Rating **Grade 3** Paragraph Ref 45	**Issue** We identified a number of issues regarding the College's asset management controls including; Finance received disposal forms for assets that were not listed on the asset register. There were three IT assets on the asset register that we could not physically verify. We physically verified two IT assets that could not be traced to a specific entry on the asset register. There are £2.2million of assets that have a nil net book value. Management do not undertake a formal review of fully written down assets to ensure these are still in use. Asset descriptions do not always contain sufficient detail to enable the timely identification of physical asset. **Risk** Poor asset management controls may lead to material misstatement in the disclosure of non-current assets, theft of property or fraud. **Recommendation** Management should perform a full review of the asset register to ensure that; - Asset descriptions are specific and include location, quantity and make/model - All assets listed on the register are still in use and can be physically verified - Information is consistent with other registers held across the College Reconciliations and verification exercises should be performed at least annually to provide assurance over accuracy. Disposal controls and the established process should be reiterated to all staff and management should follow up on any disposals that cannot be mapped to the asset register.	We will undertake an asset verification exercise for ICT assets during 2019/20 **Responsible officer:** Finance Business Partner **Implementation date:** March 2020

Follow up of prior year recommendations

Of the ten recommendations raised within our previous annual audit reports, we note that four have now been implemented, four have been partially implemented and two have yet to be implemented. Details are given below.

1. Journal Review

Initial rating	Issue & recommendation	Management comments
Grade 3	**Issue** Per the financial procedures manual, all journals should be passed to the Head of Finance and Procurement for review and authorisation in advance of posting. A secondary check would be performed by the Head of Finance and Procurement at month end whereby a sample of postings on the ledger would be traced back to hard copy journal vouchers and supporting documentation. Neither control has been fully operating during the year. Instead journals were posted to the ledger and then passed to the Head of Finance and Procurement. While all journals were signed as authorised, not all journal vouchers were reviewed and traced to the ledger to confirm the accuracy of journal posting. **Risk** There is a risk that incorrect or fraudulent postings could be made without detection by the College's finance team. **Recommendation** While our audit review in respect of the 2017/18 financial year did not identify any indications of incorrect or fraudulent journal postings, we recommend that the College reviews approval processes to ensure all manual journals are appropriately reviewed and authorised. Additionally, the College should ensure processes are consistent with the Financial procedures manual.	In conversations with the auditors it has been agreed that the some of the current procedures in place are not practical and are outdated. Hence, we will be updating our procedures in the near future. Last time the procedures were updated was in 2014. **Responsible officer:** Head of Finance and Procurement **Implementation date:** Jan 2019 (amend Financial Procedure Manual)

Current status	Audit update	Management response
In progress	It was determined in 2018/19 that the Financial Regulations also needed a substantive review, which would take priority over the review of the Finance Manual. The revised Financial Regulations are due to be approved in November 2019 at which point the review of the Finance Manual will commence.	Finance Business Partner The need to substantively update the Financial Regulations meant a delay in starting to review procedures. During the year we have identified new procurement and purchasing processes and authority levels. Creation of a new Finance Manual will be completed by 30 June 2020.

Initial rating	Issue & recommendation	Management comments
	Journal authorisation controls have been reviewed and authority has been delegated to the Finance Manager. Our journal testing did not identify any weaknesses in control.	

2. System Access Removal

Initial rating	Issue & recommendation	Management comments
Grade 2	**Issue** Two members of the College's senior finance team have left in the last 12 months. We reviewed a list of users for the College's finance system and noted that both former staff members were still listed as users. Through review of bank statements, we also noted that these continued to be addressed to the former Head of Finance and Procurement. We further noted that one staff member is still listed as a company director for the College's subsidiary. Following discussion of the issue with the Head of Finance and Procurement, both users were removed from the finance system. Additionally, the College was able to provide evidence that they had requested that the bank removed users from the bank accounts. **Risk** There is a risk that unauthorised users can access both the finance system and bank accounts due to a lack of controls around user access reviews. **Recommendation** The College should ensure in future that leavers are promptly removed as users for all IT systems in the College, bank accounts and directorships. Where suppliers do not address requests promptly, the College should ensure these are actively chased to reduce the risk of fraudulent activity.	Action will be taken immediately to remove the staff member who has left the college from directorship of the College's subsidiary. However, please note that the subsidiary has been dormant for many years and will remain dormant into the future. The bank has yet again been recently informed of the change in College's senior finance team. **Responsible officer:** Head of Finance and Procurement **Implementation date:** Immediate

Current status	Audit update	Management response
Complete	Through our review of transactions posted in the year and our review of the nominal ledger system, we confirmed that there are no individuals who have remained on the ledger system despite leaving the College.	N/A

3. Declaration of Interests

Initial rating	Issue & recommendation	Management comments
Grade 3	**Issue** Board members are encouraged to declare their interests on a regular basis through a standing item on Board and Committee agendas. Where interests are disclosed at meetings or the Board Secretary is notified of a change, these will be reflected in the member's register of interests which is published on the College's website. However, we noted that there is not an effective formal process to ensure members update their written register of interests on an annual basis. Our review of declared interests identified that one member had two undisclosed interests. We also found that one member's interest declaration was out of date. **Risk** There is a risk that the College does not identify all related parties resulting in failure to accurately disclose all related party transactions in the College's financial statements. There is a further risk that potential conflicts of interests are not identified and therefore not appropriately managed. **Recommendation** The College should ensure that all members are asked to review their registers of interest on at least an annual basis and reminded of the importance of ensuring that up-to-date registers of interest are maintained.	Members are asked to provide updates to the register of interests at every Board and committee meeting. Members will be reminded of the need to comply with laid down procedures. **Responsible officer:** Board Secretary **Implementation date:** December 2018

Current status	Audit update	Management response
Complete	Through our review of related parties' disclosures in 2018/19, we found no members of the Board that had undisclosed related parties. This is something that the College should continue to promote for all Board members in the future.	N/A

4. Year-end Preparedness

Initial rating	Issue & recommendation	Management comments
Grade 3	**Issue** There were delays in obtaining the annual report and the financial statements and working papers in 2017/18. In addition, we found the financial ledger for 2017/18 remained open until 18 October 2018, almost three months after year end. We also noted that there were areas where the College did not adhere to the model disclosures recommended by the Scottish Funding Council's Accounts Direction 2017/18. **Risk** There is a risk that transactions are incorrectly or fraudulently posted to the wrong financial period. There is a risk that the College are not adhering to the expectations of the Scottish Funding Council. **Recommendation** The College should ensure that a timetable is in place for year-end close down of the ledger and preparation of the financial statements. This should ensure that all audit and committee deadlines are met. This should also aid in sufficient time being allocated to ensure all key disclosures are in line with best practice.	A high-level timetable was communicated to the audit team. This took account of the change in finance leadership and the prioritisation of workload in relation to budget setting. The ledger was held open for longer than normal to ensure that an accurate trial balance was compiled for audit review. It was agreed with auditors that onsite work would commence based on the trial balance. It is agreed that completion of the full report and financial statements took longer than anticipated and this added extra complexity to the process. The finance leadership team sought assistance from the auditors on some disclosures. A detailed timetable will be developed for 2018/19 covering compilation of the annual report and financial statements, the audit and committee process. **Responsible officer:** Head of Finance and Procurement **Implementation date:** June 2019

Current status	Audit update	Management response
In Progress	Due to transitional staffing pressures in the finance team throughout 2018/19, there is still a lack of a timetable for the year end procedures. This is something that the Financial Controller is keen to implement for both month end and year end procedures in 2019/20.	Finance Business Partner Monthly timetable will be in place by January 2020 and an annual timetable in place by 30 June 2020

5. Impairment Review

Initial rating	Issue & recommendation	Management comments
Grade 3	**Issue** Land and buildings are subject to at least a 5 yearly formal valuation with the College's next valuation due to take place on 31 July 2019. In the interim years between property valuations, the College should ensure that a review of their property portfolio is performed at year end to ensure that the valuation remains appropriate. Discussion with the Head of Finance and Procurement found that this had not taken place. **Risk** There is a risk that the College holds land and buildings at an incorrect value resulting in the financial statements being misstated. **Recommendation** While additional audit work was performed and did not identify any issues which would indicate that the College's land and buildings are valued incorrectly, the College should ensure that a review is conducted in the interim years between valuations. This review should be documented with clear consideration of the factors likely to impact the property and land value.	The auditors were provided with a narrative on in relation to the valuation basis in 2017/18. There are no indications that any impairment is required. Our accounting policies do not state the requirement for a review of the property portfolio each year. We will review this for 2018/19. A full valuation will be conducted in 2018/19 in line with our accounting policies. **Responsible officer:** Vice Principal – Finance & Corporate Services **Implementation date:** July 2019

Current status	Audit update	Management response
In Progress	Accounting policies have been updated to reflect the need to review the property portfolio annual for any indication of impairment. Land and buildings were subject to a full valuation in 2018/19 that provided assurance there is no indication of impairment. The College should ensure arrangements are in place to complete a review of indication of impairment in the interim years between professional valuations.	Vice Principal of Finance and Corporate Services This is not yet due and will be progressed in time for next year's annual accounts.

6. Asset Held for Sale

Initial rating	Issue & recommendation	Management comments
Grade 2	**Issue** The College acquired the Netherdale campus in 2006/07 and subsequently moved into the campus in April 2009. The College's old Melrose Road campus was subsequently to be sold. However, despite several offers over the last 10 years, no sale has been finalised. The property is currently marked as an asset held for sale within the financial statements. **Risk** There is a risk that the College holds land and buildings at an incorrect value resulting in the financial statements being misstated. There is the further risk that SFC is not achieving value for money. **Recommendation** We obtained confirmation from external sources regarding the property value. However, in future, the property should ensure that a documented review of the property and associated value is performed. The College does not have any direct financial risk associated with the property as any sales proceeds would be passed to the Scottish Funding Council, however, the College does have a responsibility to ensure that the site is actively sold and steps are taken to ensure this is processed in the near future.	The auditors were provided with a narrative on the position relating to the Melrose Road site. The site remains for sale at £700k but valued at £585k which in the view of our advisors is closer to the likely value to be realized. We will be engaging with the Council regarding the planning brief and will review the position again for the 2018/19 accounts. **Responsible officer:** Vice Principal – Finance & Corporate Services **Implementation date:** July 2019

Current status	Audit update	Management response
In progress	During our 2018/19 audit, there was an offer received by the College for part of the asset held for sale. The College are looking to gain a valuation of the remaining portion of the asset during 2019/20 and have already received interest for the remaining part of the asset from two different buyers.	Vice Principal Finance and Corporate Services We are progressing with the sale and are in regular contact with our advisors in relation to the planning brief and any interest in the site. We have also engaged with Scottish Futures Trust to assist in the disposal and planning considerations.

7. Payroll Reconciliations

Initial rating	Issue & recommendation	Management comments
Grade 3	**Issue** A year-end reconciliation between the ledger and the payroll system was not prepared. **Risk** There is a risk that material differences between the ledger and payroll system were not identified in a timely manner resulting in potential financial loss for the College. **Recommendation** While audit performed the reconciliation with no material differences observed, the College should ensure that payroll reconciliations are performed on a monthly basis and in a timely manner to ensure differences can be promptly addressed and investigated.	**Responsible officer:** Finance Team **Implementation date:** On a monthly basis going forward
Current status	**Audit update**	**Management response**
Complete	We have confirmed that the payroll team have prepared both monthly payroll reconciliations and a year end reconciliation during 2018/19. Our review of the year end reconciliation found that this was appropriately and accurately prepared.	N/A

8. Financial Forecast Return

Initial rating	Issue & recommendation	Management comments
Grade 3	**Issue** The Financial Forecast Return shows a significant difference from previous FFRs. However, we noted that no additional commentary has been provided on why such significant movements have been observed. We also noted that the College has not presented appropriate scenario planning to the Board in order to inform their understanding of assumptions. **Risk** There is a risk that the FFR and assumptions used within the return have not been subject to appropriately robust scrutiny due to a lack of detail provided by management. **Recommendation** Future FFRs should show the movement between previous iterations of the FFR and include management's justification for changing figures. Management should also prepare greater scenario planning and include optimistic, likely and pessimistic assumptions for review by the Board.	We used SFC guidance on planning assumptions, to ensure a consistent approach across the sector. Scenario planning is discussed at Board level. We will consider extending this into the FFR process for 2019/20. We will implement tracking of the movement in the FFR. **Responsible officer:** Vice Principal – Finance & Corporate Services **Implementation date:** Tracking will be implemented December 2018 Scenario planning will be considered as part of 2019/20 planning

Current status	Audit update	Management response
Complete	We have reviewed the 2018/19 FFR and have noted that there is a consideration of the yearly movement in the budget, and within the accompanying commentary, this is commented upon. Additionally, through reviewing the accompanying commentary, we have found that the College have considered a number of different scenarios that will impact the FFR. These scenarios included: cost increases above FFR assumptions, variation in income, and the impact of digitalisation of delivery, among others.	n/a

9. Campus Lifecycle Trust Fund

Initial rating	Issue & recommendation	Management comments
Grade 2	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.	Confirmation will be sought from Heriot-watt University that current arrangements are accepted. **Responsible officer:** Vice Principal – Finance & Corporate Services **Implementation date:** 31 December 2017

Current status	Audit update	Management response
Complete	Agreement has been reached between HWU and the College over the current arrangements for the administration of the bank account.	n/a

10. Estimation Basis for the Netherdale Provision

Initial rating	Issue & recommendation	Management comments
Grade 3	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.	Assessment has been scheduled to take place in 2018-19, in accordance with Campus Management Committee direction. **Responsible officer:** Vice Principal – Finance & Resources **Implementation date:** 31 July 2019
Current status	**Audit update**	**Management response**
In progress	An initial review of the provision has been undertaken in March 2019, and the provision was deemed to be adequate for the costs incurred to date. However, there is no provision in place to take account for inflation. It was discussed with the Campus Management Committee, who agreed to accept this risk and they requested a further review in 5 years time.	Vice Principal Finance and Corporate Services To ensure full lifecycle provision review in 2024

Appendix 3: Audit differences

We identified the following adjustments to the financial statements during our audit. We have discussed this with management and have agreed that it will be reflected in the financial statements on the basis of material impact.

Unadjusted difference	SoCNE		Balance Sheet	
	DR £'000	CR £'000	DR £'000	CR £'000
Revaluation reserve			418	
Land and Buildings - NBV				418
Being the adjustment to the valuation of land and buildings to remove the aspect of recoverable VAT that has been capitalised.				

2017/18 – Prior period adjustment

Unadjusted difference	SoCNE		Balance Sheet	
	DR £'000	CR £'000	DR £'000	CR £'000
Revaluation reserve			20	
Income and expenditure reserve - unrestricted			424	
Land and Buildings				444
Being the restatement of the opening valuation of land and buildings				

The following adjustment is not material but is above our reporting threshold of £12,500. As there is no material impact, this has not been reflected in the financial statements.

Unadjusted difference	SoCNE		Balance Sheet	
	DR £'000	CR £'000	DR £'000	CR £'000
Expenditure	14			
Non-current assets				14
Being the amount of recoverable VAT that has been incorrectly capitalised as an addition in year				