AZETS

Borders College

2019/20 Annual Audit Report to the Board of Management and the Auditor General for Scotland

December 2020

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Key messages

Annual report and accounts audit

We have reported within our independent auditor's report unqualified opinions 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 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.

Our conclusions and key observations are set out below:

Governance statement

- We are satisfied that the Governance Statement has been prepared in accordance with the SFC Accounts Direction and that the content is consistent with the financial statements.
- The College has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the College's accounting and internal control systems throughout the year or as a result of remote working during the Covid-19 pandemic.

Financial sustainability

- The College reported a deficit of £2.938million in 2019/20, equating to 21% of the College's total income. Adjusting for non-cash transactions, the College shows an adjusted operating surplus of £0.173million.
- The College has adequate arrangements in place for short and medium term financial planning, although it continues to face significant challenges and is operating within tight financial parameters. Effort and activity continues to reach a long term sustainable position. The Board approved the 2020/21 budget in June 2020 which forecasts an underlying operating surplus of £0.067million.
- Achievement of this surplus position relies heavily on the delivery of recurring savings. The Financial Forecast Return outlines a savings requirement of £1.415 million over the four year period from 2019/20 to 2022/23, with over half of this (£0.772 million) to be delivered in 2020/21. This highlights the scale of the challenge faced by the College and the need for immediate action.
- The Board approved the Strategic Ambition 2020-2025 in June 2020. Work is ongoing to develop supporting strategies, such as the workforce strategy and five year financial plan. These documents should provide strategic direction and support the delivery of savings targets in a way that does not impact service delivery and performance within the College. We will consider the development and implementation of these documents as part of our 2020/21 audit, taking cognisance of the medium term financial plan referred to above.

Conclusion

This report concludes our audit for 2019/20. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Azets
December 2020

Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of Borders College for 2019/20.

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

The Board of Management has been designated as "those charged with governance".

Introduction

1. This report summarises the findings from our 2019/20 audit of Borders College ("the College").

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

   - an audit of the 2019/20 annual report and accounts and related matters;
   - consideration of the College's arrangements against the audit dimensions within the Code of Audit Practice (Exhibit 1);
   - 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 accounts 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 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.

4. The 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 on appropriate actions. We give each recommendation a grading to help the Board of Management assess their significance and prioritise the actions required.

5. We discussed and agreed the content of this report with the Vice Principal (Finance & Corporate Services). We would like to 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) Ethical Standards. 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 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.

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 any member of your audit team.

Openness and transparency

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

Annual report and accounts

The College's annual report and accounts 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 2019/20 annual report and accounts.

Annual report and accounts

An unqualified audit opinion on the annual report and accounts

We have reported unqualified opinions on the financial statements, regularity and on other prescribed matters for the year ended 31 July 2020. We identified one material adjustment in relation to the valuation of fixed assets.

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

Overall conclusion

12. The annual report and accounts for the year ended 31 July 2020 were considered by the Audit Committee on 26 November and then approved by the Board of Management on 3 December 2020. We report 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.

Our assessment of risks of material misstatement

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

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

Management override

In any organisation, there exists a risk that management has 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.*

Noted in the 2019/20 External Audit Plan

15. We have not identified any indications of management override in the year, outside the normal financial control processes. We have reviewed the College's accounting records and obtained evidence to ensure that transactions outside the normal course of business 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.

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.

Noted in the 2019/20 External Audit Plan

16. 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.

17. 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. To inform our conclusions, we evaluated the College's key revenue

streams and performed detailed testing over the College's revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.

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.

Noted in the 2019/20 External Audit Plan

18. While we did not suspect specific incidences of material fraud and error, we evaluated each type of expenditure transaction and documented our conclusions. We have gained reasonable assurance over 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.

Covid-19

The current Covid-19 pandemic presents a number of unprecedented challenges to the operation, financial management and governance of an organisation. Systems and processes have been amended to support remote working, governance arrangements and decision making has moved to a virtual environment and many organisations are forecasting large operating deficits due to loss of income and additional cost pressures.

There is increasing uncertainty on how long these challenges will persist and as a result, the extent of the impact on the preparation and audit of the 2019/20 annual report and financial statements remains unknown. We will continue to monitor government and relevant announcements as the pertain to the audit of the College and adapt our approach as required.

Noted in the 2019/20 External Audit Plan

19. In response to this risk we identified potential areas where there was the risk of material misstatement to the financial statements and/or our audit opinion. These areas included the content of the annual

report and accounts, access to audit evidence (as commented on below) and specific work on fixed asset valuation and going concern. We did not identify any indication of material uncertainty within the annual report and accounts.

Content of the annual report and accounts

20. In May 2020, HM Treasury issued an addendum to the Government Financial Reporting Manual (FReM) which covered the following:

    - The addendum permits, but does not require, bodies to omit or reduce the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication.
    - Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report.

21. The College took the decision to include the performance analysis section of the Performance report and make the full disclosures in the Accountability Report.

22. In addition, we confirmed that the College complied with all mandatory disclosure requirements outline in the Scottish Funding Council's Accounts Direction for Scottish College's 2019-20.

Access to audit evidence

23. Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherently challenging nature of carrying out our audit remotely.

24. We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

25. Throughout our audit of the College, we have been provided with sufficient audit evidence to form our audit opinion. There were no issues noted with the reliability or appropriateness of evidence provided.

26. The unaudited annual report and accounts and supporting papers received were generally of a good standard. However, some disclosures were not provided at the start of the audit and further work was required to correct the initial audit adjustment proposed by

management. Our thanks go to staff at the College for their assistance with our work.

An overview of the scope of our audit

27. The scope of our audit was detailed in our External Audit Plan, which was considered by the Audit Committee in May 2020. 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.

28. 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.

29. 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.

Our application of materiality

30. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout the audit.

31. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

32. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

33. Our initial assessment of materiality for the financial statements was £260,000. This equates to approximately 1.74% of the College's 2019/20 gross expenditure. We consider our initial assessment has remained appropriate throughout our audit.

	Materiality £000
Overall materiality: Our assessment is made with reference to the College's gross expenditure. Operating within budget is a key target for the College and one of the principal considerations for the users of the financial statements when assessing financial performance.	260
Performance materiality: Using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	195

34. We noted within our External Audit Plan that we would report on all audit differences in excess of 5% of the overall materiality figure, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identify when assessing the overall presentation of the financial statements.

Audit differences

35. We identified one audit adjustment as part of our audit, relating to the valuation of fixed assets capitalised in 2019/20, and three unadjusted differences. These are set out in Appendix 3. We identified some disclosure and presentational adjustments during our audit, primarily in relation to fixed assets and the Remuneration and Staff Report. These have been reflected in the final set of financial statements.

Representations

36. We have requested that a signed representation letter be presented to us at the date of signing the annual report and accounts. This letter is to be signed by the Board of Management.

Other matters identified during our audit

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

Other information in the annual report and accounts

38. "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

39. 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.

40. We have concluded that the performance report has been prepared in accordance with the directions from the Scottish Funding Council and is consistent with the financial statements.

The accountability report

41. 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.

42. Our audit opinion specifically refers to the governance statement and the audited part of the remuneration and staff report.

Governance statement

43. Based on the audit work carried out, we have concluded that the governance statement has been prepared in accordance with the SFC Accounts Direction and Government Financial Reporting Manual and is consistent with the financial statements. We have provided further detail on our work and findings within the Wider Scope section of our report (section 4).

Remuneration and staff report

44. We have concluded that the audited part of the remuneration and staff report has been prepared in accordance with the SFC Accounts Direction.

Regularity

45. 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.

46. 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.

Pension Liability

47. As at 31 July 2020, the net LGPS pension liability was £10.688million, an increase of £2.980million compared to the net pension liability as at 31 July 2019 (£7.708million).

48. Due to the significant movement in comparison with the prior year, we have conducted a more detailed analysis of the assumptions used in the actuarial report. We are satisfied that these are reasonable and that the movement is in line with that across the sector which is primarily as a result of changes in actuarial assumptions and related scheme and market conditions.

49. We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 'Audit Evidence'. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary or the completeness and accuracy of the actuarial report.

50. The net pension liability takes account of the McCloud judgement. The McCloud case relates to an employment tribunal ruling that transitional provisions impacting on public sector final salary schemes were unlawfully age discriminatory. This was upheld in the Courts in December 2018 although the Government at that stage sought leave to appeal this judgement. In June 2019, the Supreme Court rejected the Government's request for a further appeal.

51. The Goodwin tribunal relates to a recent employment tribunal that changes the pension entitlement of male survivors in opposite sex marriages to take into account the female member's service from 6 April 1978. Previously, the male spouse survivor's entitlement was based on service accrued from 6 April 1988. The change is backdated to 5 December 2005. The change therefore affects the pension of male spouse survivors where their entitlement arose (i.e. where the female member died) on or after 5 December 2005.

52. Management instructed its actuaries to calculate the net pension liability taking the McCloud judgement into account and this has been reflected in the financial statements. Management deemed the impact of the Goodwin tribunal to be wholly immaterial based on advice from the actuaries and this has therefore not been reflected in the pension liability value as at 31 July 2020.

Systems of internal control

53. We have evaluated the College's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatement in the annual report and accounts. Our approach has included documenting key internal financial controls and performing walkthroughs to confirm they are operating as intended.

54. We did not identify any material weaknesses in the College's accounting and internal control systems. However, we note that further action is required to address the audit recommendations raised in prior year to further strengthen the control environment. See Appendix 2 for detail.

Asset management controls

55. The College holds £29.700million in fixed assets as at 31 July 2020, including additions of £1.123million and transfers from assets under construction of £0.466million in 2019/20.

56. We noted that additions and transfers to land and buildings had been recognised at cost and therefore not held in line with the College's accounting policies which stipulate that the revaluation model must be applied.

57. Management engaged with a professional valuer during the audit to ascertain an estimate for the valuation of these additions and an audit adjustment was recognised. This resulted in a downward revaluation movement of £0.667million, reflecting the difference between the cost and valuation of the assets capitalised in year.

58. The College has a revaluation reserve of £4.339million as at 1 August 2019, against which it can recognise downward revaluations. However, asset records do not include sufficient detail on how this reserve is allocated across individual assets and, as a result, further work was required prior to recognising the revaluation movement.

59. Management have estimated the revaluation reserve balance held for each asset and we are satisfied that these are not materially misstated. Going forward, management should ensure adequate detail is held and maintained on the opening and closing revaluation reserve balance for each asset to support the timely and accurate recognition of future revaluation movements.

Action Plan point 1

60. In our 2018/19 Annual Audit Report, we highlighted the need for improvements in controls around disposals, asset verification exercises and impairment assessments.

61. Whilst progress has been made in 2019/20 to strengthen asset management controls, this has been delayed as a result of Covid-19 and further action is still required. See Appendix 2 for further detail.

62. Due to the audit testing completed and evidence obtained, we do not deem these ongoing prior year issues to have a material impact on the financial statements. However these weaknesses

pose a risk to asset control and otherwise the accuracy of the financial statements, and should be addressed in a timely manner.

Follow up of prior year recommendations

63. As part of our audit we have followed up on the outstanding audit recommendations from prior years. Detail on the status of the recommendations are included in the action plan at Appendix 2.

Prevention and detection of fraud and irregularity

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

65. The College incurred a loss of £7k from a fraud in 2019/20. Bank account details were changed as a result of an email scam. We are satisfied that the College took appropriate actions, including timely notification to the Information Commissioners Officer (ICO), SFC and the police, and confirmed that appropriate controls are now in place.

66. The ICO acknowledged the report and findings, concluding that no further action was required.

Qualitative aspects of accounting practices and financial reporting

67. 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 accounts. 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, which are disclosed in the financial statements, and are satisfied with the appropriateness of the accounting policy used.
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 the 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. 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 2020/21. 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 and is in line with the context of Practice Note 10 for public sector bodies.
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 annual report and accounts.
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 accounts.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant annual report and accounts 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 annual report and accounts 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. We completed our audit work remotely and worked collaboratively with the Finance team to manage and minimise the impact of this.

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 are satisfied that the Governance Statement has been prepared in accordance with the SFC Accounts Direction and that the content is consistent with the financial statements.

The College has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the College's accounting and internal control systems throughout the year or as a result of remote working during the COVID-19 pandemic.

Financial sustainability

The College has adequate arrangements in place for short and medium term financial planning, although it continues to face significant challenges and is operating within tight financial parameters. Effort and activity continues to reach a long term sustainable position. The Board approved the 2020/21 budget in June 2020 which forecasts an underlying operating surplus of £0.067million.

Achievement of this surplus position relies heavily on the delivery of recurring savings. The Financial Forecast Return outlines a savings requirement of £1.415 million over the four year period from 2019/20 to 2022/23, with over half of this (£0.772 million) to be delivered in 2020/21. This highlights the scale of the challenge faced by the College and the need for immediate action.

The Board approved the Strategic Ambition 2020-2025 in June 2020. Work is ongoing to develop supporting strategies, such as the workforce strategy and five year financial plan. These documents should provide strategic direction and support the delivery of savings targets in a way that does not impact service delivery and performance within the College. We will consider the development and implementation of these documents as part of our 2020/21 audit, taking cognisance of the medium term financial plan referred to above.

Our approach to the wider scope audit

68. Our approach to the wider scope audit (as set out in our 2019/20 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.

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

- EU withdrawal
- Fraud and corruption in respect of the procurement function

70. Overall, we concluded that the College has appropriate arrangements in place in respect of these areas as noted below:

Impact of EU withdrawal	The College has been able to demonstrate consideration of the potential impact of EU withdrawal on staff, students, funding and legislation. The College completed a Brexit risk assessment in 2018/19 and has continued to monitor the situation to minimise the all round impact. In addition, the College has participated in a 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.

Fraud and corruption in respect of the procurement function	The College undertakes a moderate volume and value of procurement activity, with the majority of the budget comprising staff and premise costs. Where procurement activity is completed, the College utilised the Scottish Government purchasing system (PECOS) where possible. This is in line with best practices and includes features aimed at countering fraud, such as enforced segregation of duties. The risk of fraud and corruption in respect of the College's procurement function is deemed to be low.

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.

71. We are satisfied that the Governance Statement for the year to 31 July 2020 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 and the SFC Accounts Directions.

72. The Board of Management has confirmed that the College has complied with all the principles of the 2016 Code of Good Governance for Scottish Colleges throughout the year ended 31 July 2020. In addition, the Board is satisfied that the internal controls arrangements comply with the required regulatory standards. We have not identified any issues from our audit work to contradict this.

Impact of Covid-19

73. With national lockdown announced on 23 March 2020, all College activity moved to being delivered remotely and this has continued to some degree throughout the period.

74. Governance arrangements continued as close to normal, although with Board and Committee meetings held virtually. Additional meetings were held as required to support timely decision making.

75. The internal control system has continued to operate throughout the remote periods of the year. Other than the switch from manually recording internal controls to electronic recording, there has been no significant changes in controls themselves overall.

76. In August 2020, Audit Scotland issued guidance to Audit and Risk Committees to self-assess their response to the potential adverse impact of the Covid-19 pandemic. The College has reflected on this self-assessment in its Governance Statement and concluded that the College has performed well overall in responding to and mitigating the impact of the pandemic, and confirmed that the current control environment was appropriate and sufficient.

Financial sustainability

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

Significant audit risk

77. 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 to quantify the impact of the Covid-19 pandemic on 2019/20 year end projections, whilst also taking account of known cost pressures such as cost inflation, national pay bargaining implications and general pay uplifts. Prior to the pandemic, the College was forecasting a small surplus. Development of a 2020/21 budget has been delayed whilst this work continues. The sector recognises that the impact of Covid-19 on the College's service delivery will continue to impact its financial sustainability in the short- and medium-term; although the extent of this remains unknown.

As noted in the 2019/20 External Audit Plan

78. The College has prepared a three year medium-term financial forecast as part of the Financial Forecasting Return (FFR) process. The latest FFR, approved by the Board in June 2020, reported the forecasted year-end position for 2019/20, the budget for 2020/21 and forward forecasts for 2021/22 and 2022/23. In addition, the College is currently developing a five year financial plan and complementary strategies to support the recently approved Strategic Ambition 2020-2025. This is due to be approved in March 2021.

79. Our work and conclusions on the budget and financial forecasts for 2020/21 onwards is set out below and notes the ongoing challenges the College continues to face.

2019/20 financial performance

80. The College reported a deficit of £2.938million for the year ended 31 July 2020, equating to 21% of the College's total income.

81. Adjusting for non-cash transactions per SFC directions, such as depreciation charges (£383k), the net charge arising from the pension valuation (£997k) and revenue funding allocated to loan payments (£252k), the College shows

an "adjusted" operating surplus of £0.173million (2018/19: £0.214million).

82. The College estimates it incurred additional costs of £0.053million as a result of the Covid-19 pandemic, relating to the implementation of social distancing and hygiene measures. There was minimal impact on revenue streams with the College recognising income of £14.011 million (2018/19: £13.393 million).

2020/21 budget

83. The Board approved the 2020/21 budget in June 2020, in line with agreed timescales. This was considered alongside the Strategic Ambition 2020-25 plan.

84. The 2020/21 budget projects an operating surplus of £0.067million, arising from budgeted income of £13.178 million (6% lower than 2019/20 actual income) and budgeted expenditure of £13.111 million (12% lower than 2019/20 actual expenditure). Adjusting for non-cash items such as notional interest and depreciation gives a forecast adjusted operating surplus of £0.059million.

85. The College has undertaking scenario analysis as summarised at Exhibit 2. 'Optimistic' and 'most pessimistic' models have been prepared, with the 'pessimistic' scenario used as the 2020/21 budget.

Savings requirement

86. Achievement of the operating surplus is dependent on the College delivering the savings target of £0.772million, a six-fold increase on the savings target set for 2019/20 (£0.106million). One third of this increased savings target will be achieved through an approved voluntary severance scheme.

87. The College plans to deliver savings through the following three approaches;

- Staff restructuring
- Income generation
- Cost reduction through efficiencies

88. Management deem the identified savings to be either low or medium risk and are comfortable that these can be delivered in year. However, as low as 10% slippage in delivery of savings could result in an overall deficit position in 2020/21. We therefore encourage management to monitor very closely the delivery of these throughout the year.

Capital expenditure

89. The College has budgeted for capital allocations in line with 2019/20, as per the SFC's guidance. This includes £0.207million for backlog maintenance (primarily on Newton St Boswells) and £0.196million for lifecycle maintenance.

Exhibit 2: 2020/21 forecasts	Optimistic £'000	Pessimistic £'000	Most Pessimistic £'000
Surplus / (Deficit)	**(234)**	**(458)**	**(626)**
Assumed savings – low risk	206	249	154
Additional savings – medium risk			
Project income	150	100	50
Other grant income	356	126	-
Restructure	297	297	100
Total savings	**1,009**	**772**	**304**
Additional costs			
Covid-19	(40)	(141)	-
Severance	(106)	(106)	(55)
Projected Surplus / (Deficit)	**629**	**67**	**(377)**

Source: 2019/20 Financial Forecast Return

Medium term financial forecasts

90. The College has prepared a three year financial forecast as part of the SFC's FFR process. The SFC has developed a set of common, indicative assumptions for Colleges to use in the aim of achieving consistency and comparability across the sector.

91. Assumptions include:

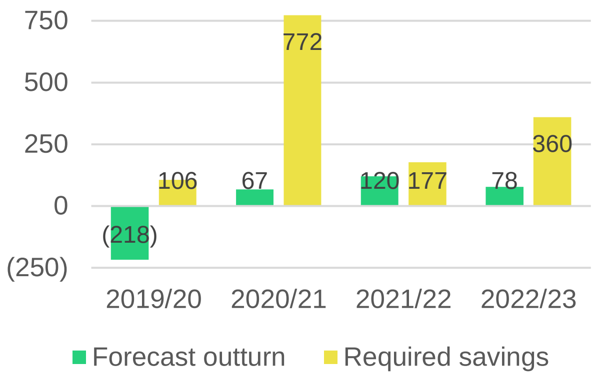
- Credit targets will remain stable until 2022-23, when they will decrease by 2.5%
- Flexible Workforce Development funding will continue at 2019/20 levels
- All student support funding requirements will be fully met
- SFC capital maintenance funding will be based on the allocation for 2019/20
- Budgets should reflect the estimated income from applications to the Coronavirus Job Retention Scheme for the period up to the end of October 2020
- Cost of living pay award should be included based on 2% increase
- Additional funding to cover the forecast increase in STSS employer contributions will continue to the end of 2022/23
- Funding will be provided for voluntary severance costs

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

93. The FFR anticipates operating surpluses in all three years but relies heavily on the delivery of savings to achieve this, as summarised in Exhibit 3.

94. The 2018/19 FFR forecasted a savings requirement of £0.947 million over the five year period from 2019/20 to 2023/24. The 2019/20 FFR requires delivery of £1.415 million of savings over the four year period to 2022/23 (Exhibit 3).

Exhibit 3: Forecast Outturn & Savings Requirement (£'000)



Source: 2019 Financial Forecast Return

95. The Board approved their new Strategic Ambition in June 2020. Work is ongoing to develop supporting documents during 2020/21 including the five year financial plan and the workforce strategy.

96. Reducing staff costs is a key aspect of the College's ambitious savings plan. The workforce strategy should be a key document in providing strategic direction and supporting delivery of these targets in a way that does not impact service delivery and performance within the College.

97. We encourage management to continue developing these key strategic documents in a timely manner and we will consider their content and implementation as part of our 2020/21 audit.

Appendices

Appendix 1: Respective responsibilities of the College and the Auditor

Responsibility for the preparation of the annual report and accounts

Within the terms and conditions of the financial memorandum between the SFC and the Board of Management 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 annual report and financial statements, the Board of Management is required to:

- apply on a consistent basis the accounting policies and standards;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have not been followed where the effect of the departure is material;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the College will continue to operate; and
- ensure the regularity of expenditure and income.

The Board of Management 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.; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual report and accounts 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 College’s affairs as at 31 July 2020 and of its surplus for the year then ended;
- they have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education (2019);;
- they 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;
- The College has not disclosed in the financial statements any identified material uncertainties that may cast doubt about it’s 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;
- 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 auditable 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 Ministers; and
- 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 Ministers; 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 Ministers.

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

- adequate accounting 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 the accounting records;
- 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 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 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

Borders College has purchased non-audit services from our business in 2019/20 with an expected fee of £4,000. We provide advisory services to the College on VAT matters. The work will be undertaken by a separate team from the audit team and the audit team will have no involvement in this work.

Confirmation of independence

We confirm that we have complied with the FRC's Ethical Standards. 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 Azets, the Board of Management or senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Action Plan

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

Action plan grading structure

The recommendations have been rated to help the College assess the significance of the issues and prioritise the actions required.

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. Revaluation reserve records Rating **Grade 3** Paragraph Ref 58	**Issue** Asset records do not contain sufficient detail on the revaluation reserve balance allocated to each individual asset. **Risk** The recognition of gains or losses on asset valuation movements may be significantly or even materially misstated and incorrectly recognised against either the revaluation reserve or the Statement of Comprehensive Income. **Recommendation** Asset registers should be updated to record and maintain the revaluation reserve balance against each individual asset where appropriate.	Review of the asset register will remain a key activity to undertake in 2020/21 **Responsible officer:** Finance business partner **Implementation date:** 31 July 2021

Follow up of prior year recommendations

Six recommendation was reported as outstanding in our 2018/19 annual audit report. We note below that two have been implemented and four are still in progress.

Asset management controls

Initial rating	Issue & recommendation	Management comments
Grade 4	**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.	We will undertake an asset verification exercise for ICT assets during 2019/20 **Responsible officer:** Finance Business Partner **Implementation date:** March 2020

Initial rating	Issue & recommendation	Management comments
	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.	

Current status	Update	Management comments
In progress	Asset verification exercise has been delayed because of Covid-19 and work has not yet commenced on the review of the asset register. We completed asset verification testing as part of our audit work to gain assurance over the existence of fixed assets and did not identify any issues that indicate material misstatement in the financial statements	This has not been possible to do due to off site working. This will be a key activity for 2020/21 once we are able to undertake physical verification **Responsible officer:** Finance Business Partner **Implementation date:** 31 July 2021

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:** Borders College **Implementation date:** Jan 2019

Current status	Update	Management comments

In progress	Due to delays in upgrading the accounting system, the update of the Finance Manual has been postponed to 2020/21 to ensure the new manual is consistent with the upgraded system. We completed journal testing as part of our audit work and did not identify any indication of incorrect or fraudulent postings.	A new senior post of AP Finance was recruited to in November 2021. This post holder will provide additional capacity for redesign of processes and documentation of same **Responsible officer:** Assistant Principal - Finance **Implementation date:** 31 July 2021

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:** Borders College **Implementation date:** June 2019

Current status	Update	
In progress	A high-level plan and timetable was place for the year end procedures and audit process. However a number of disclosures were not provided at the start of the audit including the Remuneration and Staff Report, and capital commitments note.	This comment does not make it clear that the process was very significantly improved upon during the year, contributing to a much smoother audit process this year compared with the last two, even with the impact of COVID and remote auditing. **Responsible officer:** AP Finance **Implementation date:** 31 July 2021

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:** Borders College **Implementation date:** July 2020
Current status	**Update**	**Management comments**
In progress	Accounting policies have been updated to reflect the need to review the property portfolio annual for any indication of impairment. However, a formal impairment review was not completed to inform the 2019/20 financial statements. We did not identify any indication of material impairment as part of our audit testing.	Noted. This will form part of the annual accounts timetable in future years **Responsible officer:** AP Finance **Implementation date:** 31 July 2021

Assets 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:** Borders College **Implementation date:** July 2019

Current status	Update
Complete	The College has documented the approach taken the valuation of the Netherdale Campus. The value has been based on the recoverable amount in line with accounting policies.

Estimation basis for the Netherdale Provision

Initial rating	Issue & recommendation	Management comments
Grade 3	**Issue** 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. **Risk** As time progresses there is risk that the estimates being made become a less accurate reflection of the College's obligation at each year end. **Recommendation** While the adequacy of the provision has been subject to internal review, we consider the College should ensure reassessment by an independent Quantity Surveyor 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**: Borders College **Implementation date:** July 2019

Current status	Update
Complete	An initial review of the provision was undertaken during 2018/19 and the provision was deemed to be adequate. The adequacy of the provision as at 31 July 2020 has been subject to internal and audit review and we are satisfied that this is deemed reasonable. A rolling future programme of independent review has been scheduled with a full lifecycle provision review scheduled for 2024.

Appendix 3: Audit Differences

Adjusted Differences

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

Adjusted difference	Statement of Comprehensive Income		Balance Sheet	
	DR £'000	CR £'000	DR £'000	CR £'000
Revaluation Reserve			649	
Land & buildings				649
Being the downward revaluation of additions to land & buildings to reflect their fair value as at 31 July 2020.				
Net impact on (income) / expenditure (£'000)	**nil**			

Unadjusted Differences

The following adjustments to the financial statements were identified during our audit. We have discussed this with management and agreed that they will not be reflected in the financial statements on the basis of materiality.

Unadjusted difference	**Statement of Comprehensive Income**		**Balance Sheet**	
	DR £'000	**CR £'000**	**DR £'000**	**CR £'000**
Other Grant Income	33			
Accrued Income				33
Being the reversal of a proportion of income arising from the Job Retention Scheme that was passed onto Heriot-Watt University				
Debtors			44	
Deferred capital grants				44
Being the recognition of BFET income				
Other Operating Income	44			
Other Operating Expenditure		44		
Being the reversal of Heriot-Watt University's share of expenditure incurred on the Netherdale Campus and their corresponding contribution				
Net impact on (income) / expenditure (£'000)	**33**			