# Borders College

## 2020/21 Annual Audit Report to the Board of Management and the Auditor General for Scotland

November 2021

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# Key messages

This report concludes our audit of Borders College ("the College") for 2020/21.

This section summarises the key findings and conclusions from our audit.

# Financial statements audit

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|---|---|
| **Audit opinion** | Our independent auditor's report includes:<br>• An unqualified opinion on the financial statements;<br>• An unqualified opinion on regularity; and<br>• An unqualified opinion on other prescribed matters.<br>We are also satisfied that there were no matters which we are required to report by exception. |
| **Key findings on audit risks and other matters** | Our key findings are included in the financial statements audit section of this report.<br>COVID-19 continues to bring unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic we identified potential areas of increased risk of material misstatement to the financial statements and our audit opinion. We are pleased to report those risks identified did not materialise.<br>The College had appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers, although these were not necessarily fully prepared in a timely manner. We worked collaboratively with College management, including the new senior finance team, to deliver all outputs by the required deadlines. |
| **Audit adjustments** | We identified one material adjustment to the financial statements and three unadjusted differences.<br>We identified some disclosure and presentational adjustments during our audit. These have been reflected in the final set of financial statements. |
| **Accounting systems and internal controls** | We have applied our risk-based methodology to the audit. This approach requires us to document, evaluate and assess the College's processes and internal controls relating to the financial reporting process.<br>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where we identify any control weaknesses as part of our testing, we have included these in this report. No material weaknesses or significant deficiencies were noted. However, we noted that further work is required to address the five outstanding audit recommendations from prior years. |

# 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 Annual 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 period or as a result of remote working during the COVID-19 pandemic.

We are satisfied that the Board continued to receive sufficient and appropriate information throughout the period to support the effective and timely scrutiny and challenge.

## Financial sustainability

**Auditor judgement**

The College has appropriate arrangements in place for short and medium-term financial planning; it continues to face significant challenges, operating within tight financial parameters, and has proactive measures in place to recognise, understand and scrutinise the challenges. Effort and activity continues to plan the measures required to ensure the College is in a long term sustainable position.

The Board approved the 2021/22 budget in July 2021, forecasting an adjusted operating deficit of £0.004million. This relies on the delivery of recurring savings of £0.177million in 2021/22 in addition to the £0.722million of recurring savings delivered by the College in 2020/21. Potential savings opportunities totalling £0.473million have been identified and categorised based on their risk profile. The achievability of some of these savings is dependent on the phasing of the College's response to COVID-19 and further analysis of the viability of these is ongoing. We will continue to monitor the development and delivery of these savings plans as part of our 2021/22 audit.

## Definition

We have used the following grading to provide an overall assessment of the arrangements in place as they relate to financial sustainability.

- There is a fundamental absence or failure of arrangements in place
- There is no evidence to support improvement
- Substantial unmitigated risks affect achievement of corporate objectives

- Arrangements are inadequate or ineffective
- Pace and depth of improvement is slow
- Significant unmitigated risks affect achievement of corporate objectives

- No major weaknesses in arrangements but scope for improvement exists
- Pace and depth of improvement are adequate
- Risks exist to achievement of operational objectives

- Effective and appropriate arrangements are in place
- Pace and depth of improvement are effective
- Risks to achievement of objectives are managed

# Introduction

We carried out our audit in accordance with Audit Scotland's Code of Audit Practice and maintained auditor independence

## Scope

1. 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 2020/21 annual report and accounts and related matters;
    - consideration of the wider dimensions of public audit work, as set out in 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**


## Responsibilities

2. The College is responsible for preparing annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit 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.

3. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

## Auditor independence

5. 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.

6. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent and our objectivity has not been compromised in any way.

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

## Adding value through the audit

8. 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

9. 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

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

# Financial statements audit

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.

## Overall conclusion

11. The annual report and accounts were considered by the Audit Committee on 25 November and by the Board of Management on 2 December 2021. We issued unqualified opinions in our independent auditor's report.

### Administrative processes / timescales

12. We received the unaudited annual report and accounts and supporting papers of an adequate standard, but did face some delays in obtaining access to these. Our thanks go to staff at the College for their assistance with our work, and we worked collaboratively with College management to deliver outputs per College reporting deadlines.

13. The annual report and accounts will be submitted to the Scottish Government and Auditor General for Scotland by the 31 December 2021 deadline.

## Our audit opinion

| Opinion | Basis for opinion | Conclusions |
|---|---|---|
| Financial statements | We conduct our audit in accordance with applicable law and International Standards on Auditing as required by the Code of Audit Practice.<br><br>Our findings / conclusion to inform our opinion are set out in this section of our annual report. | We issue unqualified audit opinions. |
| Going concern basis of accounting | In the public sector when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body.<br><br>We assess whether there are plans to discontinue or privatise the College's functions.<br><br>Our wider scope audit work considers the financial sustainability of the College. | We reviewed the financial forecasts for 2021/22. 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.<br><br>Our audit opinion is unqualified in this respect. |

| Opinion | Basis for opinion | Conclusions |
|---|---|---|
| Regularity | We plan and perform 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; in our opinion in all material respects the expenditure in the financial statements was incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Funding Council and Scottish Ministers. |
| Matters prescribed by the Auditor General for Scotland:<br>• Remuneration and Staff Report<br>• Performance Report<br>• Governance Statement | We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.<br><br>We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with directions from Scottish Ministers. | The annual report contains no material misstatements or inconsistencies with the financial statements.<br><br>We have concluded that:<br>• the audited part of the remuneration and staff report has been prepared in accordance with directions from the Scottish Funding Council.<br>• the information given in the performance report has been prepared in accordance with directions from the Scottish Funding Council and is consistent with the financial statements.<br>• the information given in the Governance Statement has been prepared in accordance with directions from the Scottish Funding Council and is consistent with the financial statements. |
| Matters reported by exception | We are required to report on whether: | We have no matters to report. |

| Opinion | Basis for opinion | Conclusions |
|---|---|---|
| | • adequate accounting records have not been kept; or<br>• the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or<br>• we have not received all the information and explanations we require for our audit. | |

## An overview of the scope of our audit

14. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit Committee in May 2021. 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.

15. 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.

16. In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

## Significant risk areas

17. Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

18. The significant risk areas 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.

## Significant risk areas

| 1. Management override | |
|---|---|
| **Significant risk description** | 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*.<br><br>**Risk assessment**: **High** |
| **How the scope of our audit responded to the significant risk** | **Key judgement**<br><br>There is the potential for management to use their judgement to influence the financial statements as well as the potential to override the College's controls for specific transactions.<br><br>**Audit procedures**<br><br>• Review of the College's accounting records and audit testing on transactions.<br><br>• Adoption of data analytics techniques in carrying out testing.<br><br>• Review of judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates. |
| **Key observations** | We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years. |

| 2. Revenue recognition | |
|---|---|
| **Significant risk description** | 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 income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.<br><br>**Risk assessment: High** |
| **How the scope of our audit responded to the significant risk** | **Key judgements**<br><br>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. However, we do not deem this risk to be present for funding received from the Scottish Funding Council (SFC) due to a lack of incentive and opportunity to manipulate transactions.<br><br>**Audit procedures**<br><br>• Evaluate the significant revenue streams and review the controls in place over accounting for revenue.<br><br>• Consideration of the College's key areas of revenue and obtain evidence that revenue is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. |
| **Key observations** | We have gained reasonable assurance on the completeness and occurrence of income, and we are satisfied that it is fairly stated in the financial statements.<br><br>We revisited our conclusion to rebut the risk of revenue recognition in relation to SFC funding throughout the audit and our conclusion remained the same. |

| 3. Expenditure recognition | |
|---|---|
| **Significant risk description** | As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.<br><br>**Risk assessment: High** |
| **How the scope of our audit responded to the significant risk** | **Key judgements**<br><br>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end.<br><br>**Audit procedures**<br><br>• Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing).<br><br>• Consideration of the College's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.<br><br>• Review of accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates. |
| **Key observations** | We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.<br><br>We are satisfied that accruals are free from material misstatement. However, we identified an unadjusted difference in relation to three unsupported accruals as detailed at Appendix 2. We encourage management to undertake a detailed review of accruals in 2021/22 to ensure that only accruals which are reasonable, relevant, and supported are recognised.<br><br>***Action Plan Point 1*** |

| **4. Pension assumptions (significant accounting estimate)** | |
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| **Significant risk description** | An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under FRS 102 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.<br><br>**Risk assessment: High** |
| **How the scope of our audit responded to the significant risk** | **Key judgements**<br><br>A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability.<br><br>**Audit procedures**<br><br>• Review controls in place to ensure that the data provided from the pension fund is complete and accurate.<br><br>• Review the reasonableness of the assumptions used in the calculation against the pension fund actuary and other observable data.<br><br>• Agreed the disclosures in the financial statements to information provided by the actuary.<br><br>• Consider the competence, capability and objectiveness of the management expert in line with ISA (UK) 500 – *Audit Evidence.* |
| **Key observations** | As at 31 July 2021, the College showed a net pension liability of £12.242 million, an increase of £1.554 million compared to the prior year.<br><br>Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities (obligations) are calculated on a detailed funding basis for cash contribution setting purposes, using individual member data. The 31 March 2020 formal valuations for Scottish Local Government Pension Scheme Funds were concluded by 31 March 2021.<br><br>The accounting balance sheet position as at 31 July 2021 is based on the roll forward from the 2020 formal valuation. We reviewed the reasonableness of those assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. |

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| | We reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data. No issues were noted.<br><br>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. |

| **5. Estates valuation (significant accounting estimate)** | |
|---|---|
| **Significant risk description** | The College holds a significant estate, with net book value of land and buildings of £50.2 million as at 31 July 2020. In accordance with its accounting policies, the College measures these assets at fair value through a programme of professional valuations, with the latest independent valuation completed at 31 July 2019. Due to the specialised nature of the buildings, the carrying value of assets is based on a range of estimates and small changes in estimates have the potential to result in a material change in asset valuation.<br><br>**Risk assessment: High** |
| **How the scope of our audit responded to the significant risk** | **Key judgements**<br><br>The College is required to revalue assets held at fair value with sufficient regularity to ensure that the carrying amount does not differ materially from the current value at 31 July. In accordance with its accounting policies, land and buildings are subject to professional valuation at least once every five years.<br><br>**Audit procedures**<br><br>• Review the reasonableness of assumptions used in determining the fair value of assets at 31 July 2021.<br><br>• Consider the accuracy and completeness of disclosures in the annual accounts.<br><br>• Where professional advice has been sought, consider the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK) *Audit Evidence*. |
| **Key observations** | Land and buildings were last subject to a professional valuation as at 31 July 2019. We reviewed the reasonableness of assumptions made by management when determining the fair value of assets as at 31 July 2021 against observable data, with no issues identified.<br><br>We deem the disclosures within the annual accounts to be reasonable, complete and accurate. |

| 6. Provision for Netherdale lifecycle costs (significant accounting estimate) | |
|---|---|
| **Significant risk description** | During 2006/07 the College acquired the Scottish Borders (Netherdale) Campus and entered into a leasing arrangement with Heriot-Watt University whereby the University leases part of the site. Under the contracted terms, the College has an on-going obligation to maintain the site to a specified standard and has recognised a provision for the estimated lifecycle costs.<br><br>The value of the estimated provision is informed by an assessment from an independent Quantity Surveyor on a rolling programme with the latest review completed in 2018/19. Due to its specialist nature, the value of the provision is based on a range of estimates, with any small changes having the potential to result in a material change in the underlying obligation.<br><br>**Risk assessment: High** |
| **How the scope of our audit responded to the significant risk** | **Key judgements**<br><br>There is a high level of estimation required in determining the value of the College's obligation to maintain the Netherdale campus.<br><br>**Audit procedures**<br><br>• Review of management's estimation for the provision and related disclosures.<br><br>• Where professional advice has been sought, consider the competence, capability and objectiveness of the external valuer in line with ISA 500 (UK) *Audit Evidence*. |
| **Key observations** | We are satisfied that the amount recognised as a provision as at 31 July 2021 appropriately reflects the expected level of required lifecycle costs. Maintenance spend is closely monitored by the Campus Management Committee and from our review, there has been no indication of significant changes in the condition of the campus since the last independent Quantity Surveyor assessment in 2018/19.<br><br>We encouraged the College to disclose this provision as a key source of estimation within their accounting policies and subsequently deem the disclosures within the annual accounts to be reasonable, complete and accurate. |

## Other risk factors

### Impact of COVID-19 on the annual accounts

19. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion. Our conclusions are set out in the table below.

| Area considered | Description | Conclusion |
|---|---|---|
| **Content of the annual report and accounts** | In response to the continuing impact of COVID-19, HM Treasury issued an addendum to the Government Financial Reporting Manual 2020-21 which sets out the minimum reporting requirements in respect of the performance report and accountability report:<br>• The addendum permits, but does not require, bodies to omit 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.<br>• 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. | The College took the decision to include the performance analysis section of the Performance Report and make the full disclosures in the Accountability Report. |

| Area considered | Description | Conclusion |
|---|---|---|
| **Access to audit evidence** | 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 inherent nature of carrying out our audit remotely. | 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.<br><br>We stayed in close contact with College colleagues right up until the point of accounts signing, to ensure all relevant issues were satisfactorily addressed. |

### Change in accounting policy – grouping of assets

20. During the year, the Audit Committee approved a change to accounting policy to no longer group assets as part of the College capitalisation policy, unless these are purchased as part of a discrete, linked project.

21. Individual items below the capitalisation threshold of £3k were retrospectively written off to the Statement of Comprehensive Income in 2019/20, with the changes reflected in the annual accounts.

22. We reviewed the accounting treatment and disclosures in the annual accounts and concluded that they complied with the relevant accounting standards. The overall impact on the prior year accounts was the write off of £265k of fixed assets to the Statement of Comprehensive Income, which has been offset by the additional release of £102k held in deferred capital grants.

### Coronavirus Job Retention Scheme

23. The Coronavirus Job Retention Scheme is a UK wide scheme, managed by the UK Government. Only organisations that are not fully funded by public grants can consider accessing the scheme. However public bodies which rely extensively on commercial income can apply to access it.

24. In 2020/21 the College submitted furlough claims to HMRC totalling £189k, a reduction of £25k compared to 2019/20. An average of 32 employees were furloughed during the year compared to 51 employees in 2019/20.

## Estimates and judgements

25. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.

26. As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to asset valuations, impairment, depreciation and amortisation rates,

pension liability, provisions and accruals. Other than the pension liability, asset valuation and the Netherdale provision we have not determined the other accounting estimates to be significant. We revisited our assessment during the completion stages of our audit and concluded that our assessment remained appropriate.

27. Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

| Estimates and judgements | |
| --- | --- |
| **Pension assumptions** | Balanced |
| Management consider the present value of retirement obligations on an annual basis. The valuation is carried out by the actuarial firm Hymans Robertson. We considered key assumptions against other sources of evidence and did not identify any indication that the valuation was materially misstated as at 31 July 2021.<br><br>The assumptions of the actuary, Hymans Robertson, were within our expected range. The assumptions were predominantly in the middle our expected range with the exception of the discount rate which, while within our expected range, is considered to be on the prudent end of the scale. | |
| **Estates valuation** | Balanced |
| Land and buildings are subject to professional valuation every five years, or where material changes are identified. The last professional valuation was undertaken as at 31 July 2019. We considered the key assumptions made by management when determining the fair value as at 31 July 2021 against other sources of evidence. We did not identify any indication that asset valuation as at 31 July 2021 is inappropriate. | |
| **Provision for Netherdale lifecycle costs** | Balanced |
| There is a significant degree of subjectivity in the measurement and valuation of the provision for Netherdale lifecycle costs. We considered key assumptions and are satisfied that these are reflective of expected future costs. | |

## Materiality

28. 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 and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.

29. Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the College any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

30. Our initial assessment of materiality for the College's financial statements was £225,000. On receipt of the unaudited financial statements, we reassessed materiality and were satisfied that this level remained appropriate. We consider that our assessment has remained appropriate throughout our audit.

## Materiality

| | | |
|---|---|---|
| **Overall materiality** £225,000 | 100% | Accounts materially misstated where total errors exceed this value |
| **Performance materiality** £170,000 | 75% | Work performed to capture individual errors at this level |
| **Trivial threshold** £11,250 | 5% | All errors greater than this level are reported |

| | |
|---|---|
| **Materiality** | Our assessment is made with reference to the College's gross expenditure. We consider the level of gross expenditure to be the principal consideration for the users of the financial statements when assessing financial performance.<br><br>Our assessment of materiality equates to approximately 1.5% of the College's gross expenditure as disclosed in the 2020/21 unaudited financial statements.<br><br>In performing our audit we apply a lower level of materiality to the audit of the Remuneration and Staff Report. Our materiality is set at £5,000. |

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|---|---|
| **Performance materiality** | 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.<br><br>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. |
| **Trivial misstatements** | Clearly trivial are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. |

## Audit differences

31. We identified one adjusted difference to the financial statements relating to a release from the revaluation reserve to the income & expenditure reserve.

32. We identified three unadjusted differences and some disclosure and presentational adjustments during our audit which have been detailed in Appendix 2.

## Internal controls

33. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the College. These matters are limited to those which we have concluded are of sufficient importance to merit being reported. Our findings are reported in Appendix 3.

## Follow up of prior year recommendations

34. As part of our audit we have followed up on the five outstanding audit recommendations from prior years. Detail on these recommendations is included in the action plan at Appendix 4. Impacted by the turnover in the senior finance team, limited progress has been made in 2020/21 and we deem all five actions to still be outstanding.

| Area | Assessment | Comment |
|---|---|---|
| Control and process environment | Satisfactory | We consider the control environment within the entity to be satisfactory. Work remains ongoing to address a number of areas for improvement noted in previous years, as detailed at Appendix 3. |
| Quality of supporting schedules | Satisfactory | The supporting schedules received during the course of the fieldwork were sufficient for our audit purposes. |
| Responses to audit queries | Satisfactory | Whilst delays were initially faced in obtaining a complete set of draft accounts, the College's responses to our audit queries were appropriate and received on a timely basis. |

## Other communications

### Accounting policies, presentation and disclosures

35. Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the College.

36. The accounting policies, which are disclosed in the annual accounts, are in line with the Statement of Recommended Practice and are considered appropriate.

37. There are no significant financial statements disclosures that we consider should be brought to the attention of the College. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

38. Overall we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

### Fraud and suspected fraud

39. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

40. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

### Non-compliance with laws and regulations

41. As part of our standard audit testing, we have reviewed the laws and regulations impacting the College. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

## Written representations

42. We have requested that the Board of Management sign a letter of representation at the same time as approving the annual report and accounts.

## Related parties

43. We are not aware of any related party transactions which have not been disclosed.

## Confirmations from third parties

44. All requested third party confirmations in respect of bank and legal confirmations have been received.

# Wider scope

Following consideration of the size, nature and risks of the College, our annual audit work on the wider scope has 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 period or as a result of remote working during the COVID-19 pandemic.

We are satisfied that the Board continued to receive sufficient and appropriate information throughout the period to support the effective and timely scrutiny and challenge.

### Financial sustainability

**Auditor judgement**

The College has appropriate arrangements in place for short and medium-term financial planning; it continues to face significant challenges, operating within tight financial parameters, and has proactive measures in place to recognise, understand and scrutinise the challenges. Effort and activity continues to plan the measures required to ensure the College is in a long term sustainable position.

The Board approved the 2021/22 budget in July 2021, forecasting an adjusted operating deficit of £0.004million. This relies on the delivery of recurring savings of £0.177million in 2021/22 in addition to the £0.722million of recurring savings delivered by the College in 2020/21. Potential savings opportunities totalling £0.473million have been identified and categorised based on their risk profile. The achievability of some of these savings is dependent on the phasing of the College's response to COVID-19 and further analysis of the viability of these is ongoing. We will continue to monitor the development and delivery of these savings plans as part of our 2021/22 audit.

## Our approach to the wider scope audit

45. Our approach to the wider scope audit (as set out in our 2020/21 External Audit Plan) builds on our understanding of the College which we developed from previous years, along with discussions with the College and review of minutes and key strategy documents.

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

    - Impact of COVID-19 on financial sustainability;
    - Changes in governance arrangements in response to the pandemic; and
    - Counter-fraud arrangements, including the risk of fraud and corruption in relation to the procurement function.

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

| | |
|---|---|
| **Impact of COVID-19 on financial sustainability** | Following the UK and Scottish Government escalation of the national response to the COVID-19 pandemic in March 2020, the operation of the College was adapted to implement a hybrid of on campus and remote working. Additional funding of £0.279million funding was received in 2020/21 to offset lost income and costs incurred in supporting the return of students to campus. In addition, the College claimed £0.189million of income against the Coronavirus Job Retention Scheme.<br><br>The College and the SFC continue to closely monitor the impact of the pandemic on service delivery and act accordingly. |

| | |
|---|---|
| **Changes in governance arrangements in response to the pandemic** | Governance arrangements have continued as normal with the Board of Management and Committee meetings being held through virtual means. We are satisfied that the Board of Management continued to receive sufficient and timely information throughout the period to support effective scrutiny, challenge and decision making. |

| | |
|---|---|
| **Counter-fraud arrangements, included the risk of fraud and corruption in the procurement function** | Since the start of the pandemic, there has been potential for the risk of fraud and error to increase as the control environment and internal controls have changed.<br><br>We found Borders College's arrangements for the prevention and detection of fraud and other irregularities to be adequate and fit for purpose. We reviewed Audit Scotland's report on COVID-19 Emerging Fraud Risks and satisfied ourselves that where there have been changes in the control environment, appropriate mitigating controls have been implemented. |

We reflected on the risk of fraud and corruption in respect of the procurement function as part of our 2019/20 Annual Audit Report and deemed the level of risk to be low. We have revisited this assessment during our audit fieldwork and have not identified any changes to this.

## 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.**

48. We are satisfied that the Governance Statement for the year to 31 July 2021 is consistent with the financial statements and 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 Direction.

49. From our audit work we have concluded that 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.

50. 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 2021.

51. An effective internal audit service is an important element of an entity's overall governance arrangement. The College's internal audit service is provided by Wylie & Bisset. We have taken cognisance of the work of internal audit in forming our opinion on the appropriateness of the disclosures in the Governance Statement.

### Governance arrangements during COVID-19

52. With national lockdown announced on 23 March 2020, all College activity moved to being delivered remotely. Hybrid working and learning was introduced in August 2020 and has continued throughout the period.

53. Governance arrangements have continued as normal with Board and Committee meetings held virtually. Additional meetings and workshops were held as required to support timely decision making.

54. The Board continued to receive and consider all standing agenda items during 2020/21 including risk register updates, finance reports and committee updates. We are satisfied that the Board received sufficient and timely information throughout the period to support the effective scrutiny, challenge and decision making.

### National Fraud Initiative

55. 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.

56. The most recent NFI exercise commenced in January 2021, with matches due for investigation by 30

September 2021. The College faced some initial delays in submitting its NFI data, but proactively worked to address this in a timely manner once notified.

57. Based on our review to date, we have concluded that NFI arrangements are satisfactory and that the Board has taken a reasonable and proportionate approach to investigating matches.

## 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

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

| Financial sustainability |
| --- |
| The College continues to face significant challenges, with ongoing effort and activity to reach a long term sustainable position. The 2020/21 Financial Forecast Return outlined a savings requirement of £1.415 million over the four year period from 2019/20 to 2022/23. The College is on track to deliver against the savings target of £0.772 million in 2020/21. Whilst this is a notable achievement, the scale of the challenge remains significant, especially as the sector continues to manage the impact of the COVID-19 pandemic.<br><br>The Board approved the Strategic Ambition 2020-2025 in June 2020 and work has been ongoing to develop and update supporting strategies, such as the workforce strategy and five year financial plan. Managing staff costs is a key aspects of the College's ambitious savings plan, alongside increasing commercial revenue. The workforce strategy should therefore be a key document in providing strategic direction and supporting delivery of these savings targets in a way that does not impact service delivery.<br><br>Work is ongoing to prepare the 2021/22 budget and update medium term financial plans, reflecting on the continued impact the COVID-19 pandemic has on service delivery and financial forecasts. |

*Noted in the 2020/21 External Audit Plan*

59. Our detailed findings on the College's financial framework for achieving medium term financial sustainability are set out below.

## 2020/21 financial performance

60. The College reported a deficit of £1.097million for the year ended 31 July 2021, equating to 8% of the College's total income.

61. Adjusting for non-cash transactions per SFC directions, such as depreciation (£0.102million), impairment (£0.081million), the net charge arising from the pension valuation (£1.154million) and revenue funding allocated to loan payments (£0.252million), the College shows an "adjusted" operating surplus of £0.307million (2019/20: £0.373million).

62. Recognising the financial pressure all Colleges are under as a result of the COVID-19 pandemic, SFC announced additional funding of £15.3million across the sector in March 2021 to cover loss of income and to support the return of students to college campuses. Borders College received an allocation of £0.279million of this funding.

63. In addition, the College claiming £0.189million of funding through the Coronavirus Job Retention Scheme to support staff costs.

64. The College set an ambitious savings target of £0.772million for 2020/21. This was delivered in full, a notable achievement in a year where the College faced such financial uncertainty.

## 2021/22 budget

65. The Board approved the draft 2021/22 budget in June 2021, and subsequent approved the final budget and Financial Forecast Return (FFR) in July 2021. Normally the budget would be prepared alongside the FFR, however SFC's guidance on preparing the FFR was not available at the time of drafting the budget.

66. The 2021/22 budget projects an operating surplus of £0.110million, compared to a £0.120million surplus anticipated in the 2020/21 FFR. Adjusting for non-cash items such as depreciation gives a forecast adjusted operating deficit of £0.004million.

67. Budgeted income of £15.103million is 5% higher than 2020/21 actual income. Final SFC allocations for 2021/22 were issued on 27 May 2021 and incorporated an increase across the sector of 8% in teaching funding, an increase of 1.9% in student funding and a decrease in capital funding of £2million across the sector. Budgeted expenditure of £14.993million is consistent with the level incurred in 2020/21. Increases in staff costs have been offset by savings elsewhere across the budget.

68. The College has undertaken scenario analysis as summarised at Exhibit 2. 'Optimistic' and 'most pessimistic' models have been prepared, with the 'pessimistic' scenario being used in the 2021/22 budget.

### Exhibit 2: 2021/22 Sensitivity Analysis

| Area of uncertainty | Optimistic £'000 | Pessimistic £'000 | Most pessimistic £'000 |
|---|---|---|---|
| **Approved budget surplus** | **110** | **110** | **110** |
| ***Income*** | | | |
| Grant in aid credit income | 350 | 0 | (350) |
| Curriculum areas commercial income | 120 | 80 | 0 |
| Project based income | 94 | 47 | 15 |
| HWU ISLT | 0 | (30) | (60) |
| ***Expenditure*** | | | |
| National bargaining | 0 | (88) | (176) |
| Savings achievement | 0 | (50) | (75) |
| Grouped IT assets | 0 | (60) | (80) |
| COVID-19 impacts | 40 | 0 | (20) |
| **Revised surplus / (deficit)** | **715** | **9** | **(636)** |

Source: Financial Forecast Return 2021/22 to 2023/24

### Savings Requirements

69. Achievement of an operating surplus position is dependent on the College's performance in delivering the savings targets. The savings target for 2021/22 is £0.177million compared to £772k in 2021/22.

70. The College continues to deliver savings targets through the following three approaches:

- Staff restructuring
- Income generation
- Cost reduction through efficiencies

71. Potential savings totalling £473k have been identified in several categories as shown in Exhibit 3. This is greater than the annual requirement to allow for risk and variability in year. Some savings relate to the College's response to the COVID-19 pandemic and will be reviewed as Scottish Government guidance permits.

**Exhibit 3: 2021/22 Savings Plan**

| Savings & opportunities | Potential Value (£'000s) | Risk Level |
|---|---:|---|
| Commercial Income | 160 | Medium |
| Staff Restructure | 175 | Low- already assumed |
| Facilities spend | 63 | Low |
| External staffing costs | 40 | Medium |
| Rationalisation of estate | 27 | Already achieved |
| Office Spend | 8 | Low |
| **Total** | **473** | |

Source: Financial Forecast Return 2021/22 to 2023/24

72. Internal Audit undertook a review of the College's approach to saving and achieving value for money. As reported to the Audit Committee in September 2021, internal audit gave this area a 'strong' rating and concluded that the arrangements in place were adequately designed, followed good practice and allowed the College to meet the ambitious savings target of £0.772million in 2020/21.

### Capital Expenditure

73. The College has received an allocation of £0.207million for backlog maintenance and £0.181million for lifecycle maintenance. In addition, the College has secured the capital receipt of £0.365million for Melrose Road which will be applied to the 2021/22 capital programme.

74. In additional to Planned Preventative Maintenance programme, the College intends to commence planning for the replacement of elements of the IT infrastructure. The Asset Management Strategy was approved by the Board in December 2020, outlining the priorities for 2021/22 and beyond.

## Medium term financial forecasts

75. The College has prepared a three year financial forecast as part of the SFC's FFR process. The SFC published guidance in August 2021 and the FFR was approved by the Board in September 2021.

76. 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. Assumptions include:

- Credit targets will remain stable;

- Flexible Workforce Development Funding will continue at 2020/21 levels
- Student support funding requirements will be fully met.
- SFC capital maintenance funding should be based on the final 2021/22 funding allocations.
- Institutions should include estimated income from the Coronavirus Job Retention Scheme.
- Staff costs will reflect: agreed cost of living increases, public sector pay policy, no assumed increase in social security costs and any known or expected increases in employer pension contribution rates.
- Funding will not be provided for voluntary severance schemes.

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

78. The FFR anticipates an operating surplus in 2021/22 and a break even position in 2022/23 and 2023/24. However achievement of this relies heavily on the delivery of savings.

79. The College anticipates funding shortfalls of £0.852million in 2022/23 and an additional £0.168million in 2023/24. Savings are required to offset this.

80. Recognising the need to consider savings at an early date, potential savings of £0.845million have been identified to allow the College to achieve a surplus position in 2022/23 as outlined in Exhibit 4. We will continue to monitor identification and delivery of savings throughout our 2021/22 audit.

**Exhibit 4: 2022/23 Savings Plan**

| Savings 2022/23 | Potential Value (£'000s) | Risk Level |
|---|---:|---|
| Curricular commercial | 100 | Low |
| Commercial income | 260 | Low |
| Sale of equipment & facilities | 80 | Medium |
| Staffing costs | 330 | Medium |
| Misc. expenditure savings | 75 | Low |
| **Total** | **845** | |

Source: Financial Forecast Return 2021/22 to 2023/24

81. The Board approved the College's Strategic Ambition in June 2020. Over the past year the College has developed and implemented a number of supporting documents including a workforce strategy and asset management strategy. Further work is ongoing to develop the operational plans that support these strategies.

# Appendices

# Appendix 1: Respective responsibilities of the Board of Management and the Auditor

The Code of Audit Practice (2016) sets out the responsibilities of both the Board of Management and the auditor and are detailed below.

## The Board of Management's responsibilities

The Board of Management has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver its objectives.

| Area | Board of Management's responsibilities |
|---|---|
| **Corporate governance** | The Board of Management is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. |
| **Financial statements**. | The Board of Management has responsibility for:<br>• preparing financial statements which give a true and fair view of its financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;<br>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures;<br>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;<br>• maintaining proper accounting records; and<br>• preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of the College.<br>The Board of Management is responsible for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable |

| | |
|---|---|
| | financial reporting framework. The relevant information should be communicated clearly and concisely.<br><br>The Board of Management is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The Board of Management is also responsible for establishing effective and appropriate internal audit and risk-management functions. |
| **Standards of conduct for prevention and detection of fraud and error** | The Board of Management is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct. |
| **Financial position** | The Board of Management is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:<br><br>• Such financial monitoring and reporting arrangements as may be specified;<br>• Compliance with statutory financial requirements and achievement of financial targets;<br>• Balances and reserves, including strategies about levels and their future use;<br>• Plans to deal with uncertainty in the medium and long term; and<br>• The impact of planned future policies and foreseeable developments on the financial position. |
| **Best value** | Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. |

## Auditor responsibilities

Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements and the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Auditor General when circumstances indicate that a statutory report may be required; and
- demonstrate compliance with the wider scope of public audit.

### Wider scope of audit

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

The Code 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

In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements there are no further matters to bring to your attention in relation to our integrity, objectivity and independence.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

### Audit and non-audit services

The total fees charged to the College for the provision of services in 2020/21 (with prior year comparators) is as follows:

| | Current year<br>£ | Prior year<br>£ |
|---|---|---|
| Audit of Borders College (Auditor remuneration) | 15,680 | 14,610 |
| **Total audit** | **15,680** | **14,610** |
| Non-audit services | 900 | 2,700 |
| **Total fees** | **16,580** | **17,310** |

FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. We provided advisory services to the College on VAT matters. We obtained clearance from our Ethics Partner and Audit Scotland prior to commencing the engagement. The work has been undertaken by a separate team from the audit and the audit teams has had no involvement in this VAT work.

## Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report which covers our work at the College since appointment can be found at https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021

# Appendix 2: Adjusted and unadjusted errors identified during the audit

## Adjusted differences

We identified the following adjustment to the annual accounts 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.

| No Detail<br>Details of adjusted audit differences | Assets<br>Dr / (Cr)<br>£'000 | Liabilities<br>Dr / (Cr)<br>£'000 | Reserves<br>Dr / (Cr)<br>£'000 | SOCI<br>Dr / (Cr)<br>£'000 |
|---|---|---|---|---|
| 1. Transfer from revaluation reserve to income & expenditure reserve to reflect the difference between the depreciation based on the revalued amount and depreciation based on the original cost | | | Revaluation Reserve: 176<br>Income & Expenditure Reserve: (176) | |
| Total | | | | - |

## Unadjusted differences

Our summary of unadjusted audit differences is presented below. We have discussed these with management and confirmed that all unadjusted differences are collectively and individually immaterial.

| No | Detail | Assets | Liabilities | Reserves | SOCI |
|---|---|---|---|---|---|
| | **Details of unadjusted audit differences** | **Dr / (Cr)<br>£'000** | **Dr / (Cr)<br>£'000** | **Dr / (Cr)<br>£'000** | **Dr / (Cr)<br>£'000** |
| 1. | Accrual of employers' NI and pension costs as part of the holiday pay accrual | | (99) | | 99 |
| 2. | Reversal of Heriot-Watt University's share of expenditure incurred on the Netherdale Campus and their corresponding contribution | | | | Income: 51<br>Expenditure: (51) |
| 3. | Reversal of extrapolated error identified in accruals testing | | 71 | | (71) |
| Net impact on (income) / expenditure (£'000) | | | | | 28 |

## Disclosure amendments

| No | Detail |
|---|---|
| 1 | Change in accounting policy – appropriate disclosure on the nature, justification and impact of the change in accounting policy |
| 2 | Key sources of estimation – disclosure of the Netherdale lifecycle costs provision as a key source of estimation within accounting policies. |
| 3 | Related party transactions – disclosure of transactions incurred with Scottish Borders Council as deemed to be a related party. |
| 4 | Governance statement – disclosure of the outcome of the Board self-evaluation exercise. This information was not available at the time of drafting the annual accounts. |
| 5 | Capital and other commitments – incorrect figures included in the draft annual accounts. |
| 6 | Lease obligations – incorrect classification of commitments between leases that expire in less than one year, between one and five years, and later than five years. |

# Appendix 3: Action Plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit. The recommendations are categorised into three risk ratings:

**Key:**

**Significant deficiency**

**Other deficiency**

**Other observation**

## 1. Accruals

**Other observation**

| | |
|---|---|
| **Observation** | We identified two accruals for which management could not provide sufficient evidence to support their value. In addition, we identified one accrual that should have been reversed in 2020/21.<br><br>We do not deem these errors to be material to the annual accounts and have raised an unadjusted difference to reverse these items. |
| **Implication** | If not subject to regular review, there is a risk that accruals and expenditure may be overstated in the annual accounts. |
| **Recommendation** | Management should undertake a detailed review of accruals in 2021/22 to ensure only reasonable, relevant and supported accruals are recognised. |
| **Management response** | This review process is already in place, procedural review will be complete by March 2022. |

# Appendix 4: Follow up of prior year recommendations

## Actions first raised in 2019/20

| 1. Revaluation reserve records | | | |
|---|---|---|---|
| **Recommendation** | Asset registers should be updated to record and maintain the revaluation reserve balance against each individual asset where appropriate. | | |
| **Rating** | Other deficiency | **Implementation date** | 31 July 2021 |
| **Outstanding** | The asset register has not been updated to record the revaluation reserve balance held against each individual asset. | | |
| **Responsible Officer** | Finance Business Partner | **Revised implementation date** | March 2022 |

## Actions first raised in 2018/19

### 2. Asset management controls

| | | | |
|---|---|---|---|
| **Recommendation** | Management should perform a full review of the asset register to ensure that;<br>• Asset descriptions are specific and include location, quantity and make/model;<br>• All assets listed on the register are still in use and can be physical verified;<br>• Information is consistent with other registers held across the College.<br>Reconciliations and verification exercises should be performed at least annually to provide assurance over accuracy.<br>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. | | |
| **Rating** | **Significant deficiency** | **Implementation date** | Initial – March 2020<br>Current - July 2021 |
| **Outstanding** | Asset verification was not completed in 2020/21, with the planned exercise impacted by COVID-19. The implementation of the change in accounting policy resulted in a thorough review of the asset register to ensure the appropriate assets were removed. However, robust management controls are still required over transient assets such as IT equipment.<br>Further work is required to establish and document asset management controls including regular verification and robust disposal controls. Management intend to develop an asset management policy in 2021/22 to address this recommendation. | | |
| **Responsible Officer** | Finance Business Partner | **Revised implementation date** | March 2022 |

## Actions first raised in 2017/18

| **3. Journal review** | | | |
|---|---|---|---|
| **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.<br><br>Additionally the College should ensure processes are consistent with the financial procedures manual. | | |
| **Rating** | **Other deficiency** | **Implementation date** | Initial – Jan 2019<br><br>Current – July 2021 |
| **Outstanding** | Procedures will be reviewed by management in 2021/22 and considered by internal audit in March 2022.<br><br>Our journal testing in 2020/21 did not identify any indication of incorrect or fraudulent postings. | | |
| **Responsible Officer** | Finance Business Partner | **Revised implementation date** | March 2022 |

| 4. Year-end preparedness | | | |
|---|---|---|---|
| **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 also aid in sufficient time being allocated to ensure all disclosures are in line with best practice. | | |
| **Rating** | **Other deficiency** | **Implementation date** | Initial – June 2019<br>Current – July 2021 |
| **In progress** | Whilst the College was supportive and engaging throughout the remote audit process, there were delays in providing a complete set of draft accounts and a high number of disclosure changes identified. We continued to work closely with management, including the new senior finance team, to ensure deadlines were met. | | |
| **Responsible Officer** | Finance Business Partner | **Revised implementation date** | July 2022 |

## 5. Impairment review

| | | | |
|---|---|---|---|
| **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.<br><br>This review should be documented with clear consideration of the factors likely to impact the property and land value | | |
| **Rating** | **Significant deficiency** | **Implementation date** | Initial – July 2019<br><br>Current – July 2021 |
| **Outstanding** | Based on additional audit procedures to obtain sufficient audit evidence, we are satisfied that there is no indication of impairment that would indicate the College's assets are valued incorrectly.<br><br>However, we continue to encourage the College to strengthen and formalise its annual impairment assessment. This should include consideration of the condition of each asset and any material changes in year. Management should obtain assurance from the relevant asset owners where appropriate to inform their assessment. Evidence that such a review has been completed should be provided as part of the year end audit. | | |
| **Responsible Officer** | Assistant Principal Finance | **Revised implementation date** | July 2022 |