Borders College

2021/22 Annual Audit Report to the Board of Management and the Auditor General for Scotland

November 2022

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Key messages

This report concludes our audit of Borders College ("the College") for 2021/22.

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

Financial statements audit

Audit opinion	Our independent auditor's report includes: • An unqualified opinion on the financial statements; • An unqualified opinion on regularity; and • An unqualified opinion on other prescribed matters.
Key findings on audit risks and other matters	We have obtained adequate evidence in relation to the key audit risks identified in our audit plan. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. The accounting policies used to prepare the financial statements are in line with Statement of Recommended Practice and are considered appropriate. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately. The College prepared the annual report and accounts and the required supporting working papers, although we encountered some notable delays and issues with receipt of certain of the information expected.
Audit adjustments	Adjustments made to the financial statements are noted at Appendix 2. The unadjusted differences are collectively and individually immaterial. We identified a range of 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. 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, although we anticipate a smoother and more timely audit process in future periods when there is a more steady and established team in place in key positions.

Wider scope audit

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

- 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 related guidance and that the content is consistent with the financial statements.

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. This has informed the governance statement process and content.

Financial sustainability

Auditor judgement

The College has appropriate arrangements in place to prepare short and medium-term financial plans, but it continues to face significant challenges, operating within tight financial parameters and with cognisance of the national economic outlook. It has proactive measures in place to recognise, understand and scrutinise the challenges.

The College submitted its draft FFR which forecasts an underlying operating surplus in 2022/23 and operating deficits from 2023/24 to 2026/27. Potential income and expenditure savings opportunities totalling £2.792million have been identified for the period 2022/23 to 2026/27. The College has recognised that the achievement of the level of these identified savings is challenging and stretches the ability to maintain a sustainable curriculum offer, and difficult decisions lie ahead (including as informed by future resourcing allocations and the macroeconomic environment).

The College will continue to face challenges over the next few years in achieving a balanced financial position due to pressures on the College sector. The College's ability to develop and maintain its core services in a sustainable manner remains at significant risk from 2022/23 and beyond, and this requires continuing careful management and oversight.

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

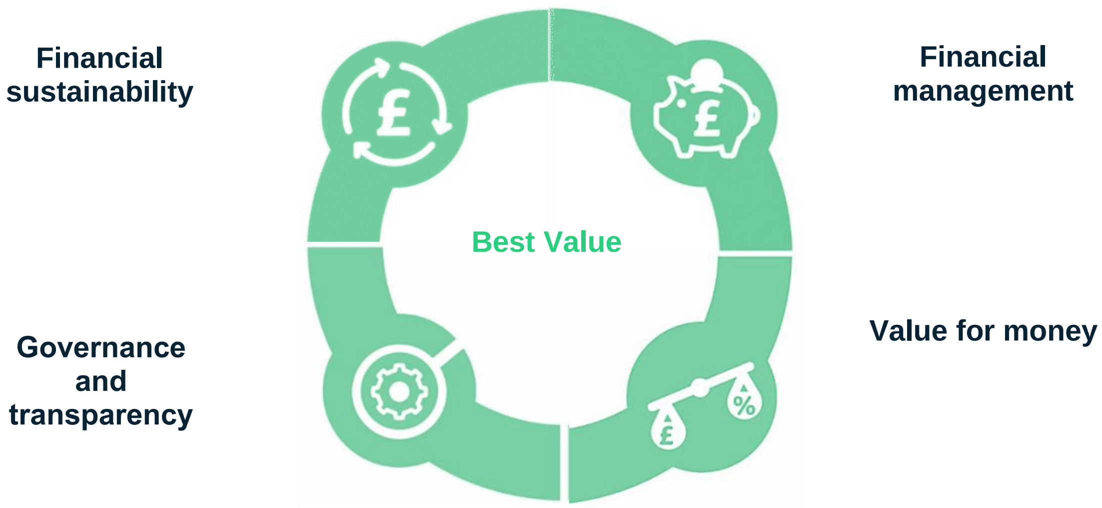
Introduction

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 2021/22 annual report and accounts and related matters;
   - consideration of the wider dimensions of public audit work, as set out in Exhibit 1 (as per the restricted wider scope work set out in our audit plan);
   - monitoring the College's participation in the National Fraud Initiative (NFI);
   - consideration of fairness & equality arrangements in place; 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 24 November 2022 and by the Board of Management on 1 December 2022. Our independent auditor's report is unqualified.

Administrative processes / timescales

12. We received the unaudited annual report and accounts and supporting papers of a generally adequate standard, but did face some delays in obtaining access to these (specifically the annual report) and some aspects of the accounts needed more update and focus than we'd otherwise expect (such as the remuneration report as drafted). 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 2022 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. Our findings / conclusion to inform our opinion are set out in this section of our annual report.	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. We assess whether there are plans to discontinue or privatise the College's functions.	We reviewed the financial forecasts for 2022/23. 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. Our audit opinion is unqualified in this respect.

<table>
<tr><th>Opinion</th><th>Basis for opinion</th><th>Conclusions</th></tr>
<tr><td></td><td>Our wider scope audit work considers the financial sustainability of the College.</td><td></td></tr>
<tr><td>Regularity</td><td>We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.</td><td>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 any applicable enactments and guidance issued by the Scottish Ministers.</td></tr>
<tr><td>Opinions prescribed by the Auditor General for Scotland on:

• Performance Report and Governance Statement

• Remuneration and Staff Report</td><td>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.

We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with relevant legislation and regulations.</td><td>The annual report contains no material misstatements or inconsistencies with the financial statements.

We have concluded that:

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

• the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made</td></tr>
</table>

Opinion	Basis for opinion	Conclusions
		thereunder by the Scottish Funding Council.
Matters reported by exception	We are required to report on whether: • adequate accounting records have not been kept; or • the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit.	We have no matters to report.

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 2022. 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*.
How the scope of our audit responded to the significant risk	**Key judgement** 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. **Audit procedures** • Review of the College's accounting records and audit testing on transactions. • Adoption of data analytics techniques in carrying out testing. • 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.
How the scope of our audit responded to the significant risk	**Key judgements** 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 revenue resource allocations from the Scottish Funding Council due to a lack of incentive and opportunity to manipulate transactions. **Audit procedures** • Evaluate the significant revenue streams and review the controls in place over accounting for revenue. • 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.

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.
How the scope of our audit responded to the significant risk	**Key judgements** 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. **Audit procedures** • Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing). • 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. • 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.

4. Pension assumptions (significant accounting estimate)	
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.
How the scope of our audit responded to the significant risk	**Key judgements** Given that small movements in the underlaying assumptions may translate into significant changes of the pension liability we deem this area to be subject to a high risk of misstatement. **Audit procedures** • Review controls in place to ensure that the data provided from the pension fund is complete and accurate. • Review the reasonableness of the assumptions used in the calculation against the pension fund actuary and other observable data. • Agreed the disclosures in the financial statements to information provided by the actuary. • Consider completeness and accuracy of the information provided by the actuary. • Ensure that we can rely on actuary's work as an expert by obtaining sufficient appropriate audit evidence that such work is adequate for the purposes of the audit.
Key observations	The net pension liability was £1.631 million as at 31 July 2022 (2021: £12.242 million). We gained reasonable assurance that the pension assumptions used are appropriate and that the pension liability is not misstated in the annual accounts. We reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data. No issues were noted. 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 portfolio of land and buildings, with net book value of £27.059 million as at 31 July 2021. In accordance with its accounting policies, the College measures these assets at fair value through a programme of professional valuations, with the latest independent review 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, with any small changes in estimates having the potential to result in a material change in asset valuation.
How the scope of our audit responded to the significant risk	**Key judgements** 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. **Audit procedures** • Consider the competence, capability and objectiveness of the external valuer in line with ISA (UK) 500 Audit Evidence. • Review the valuation report and consider the assumptions used by the external valuer against external sources of evidence. • Consider the scope of the external valuer's work and the information provided to the external valuer for completeness.
Key observations	We have gained assurance that the carrying value of the College's estate in the annual accounts is in line with the report received from the external valuers (Ryden LLP). In accordance with ISA (UK) 500 "Audit Evidence" we have considered the competence, capability and objectivity of the professional valuer and did not identify any items which gave us cause for concern over the suitability of the valuer. We confirmed that the basis of valuation for assets is appropriate based on their usage and reviewed the reasonableness of valuation assumptions applied. Overall, the valuation movements were in line with supporting evidence.

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. 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.
How the scope of our audit responded to the significant risk	**Key judgements** There is a high level of estimation required in determining the value of the College's obligation to maintain the Netherdale campus. **Audit procedures** • Review of management's estimation for the provision and related disclosures. • 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 2022 appropriately reflects the expected level of required lifecycle costs and related documentation. Maintenance spend is monitored by the Campus Management Committee and there has been no indication of significant changes in the campus and related shared arrangements since the last independent Quantity Surveyor assessment in 2018/19.

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
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. We stayed in close contact with College colleagues right up until the point of accounts signing, to ensure all relevant issues are satisfactorily addressed.

Estimates and judgements

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

21. 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.

22. 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 2022. 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 2022. We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the experts was appropriate. We considered the key assumptions made by management when determining the fair value as at 31 July 2022 against other sources of evidence. We did not identify any indication that asset valuation as at 31 July 2022 is inappropriate.	
Provision for Netherdale lifecycle costs	Balanced
There is a reasonable 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 the agreement and related costs.	

Materiality

23. 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.

24. 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.

25. Our initial assessment of materiality for the College's financial statements was £226,000. On receipt of the unaudited financial statements, we reassessed materiality and updated this to £261,000. We consider that our assessment has remained appropriate throughout our audit.

Materiality

Overall materiality

£261,000 → 100% → Accounts materially misstated where total errors exceed this value

Performance materiality

£196,000 → 75% → Work performed to capture individual errors at this level

Trivial threshold

£13,050 → 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. Our assessment of materiality equates to approximately 1.5% of the College's gross expenditure as disclosed in the 2021/22 unaudited financial statements. We apply a lower level of materiality to the audit of the Remuneration and Staff Report. Our materiality is set at £5,000.
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. 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

26. Audit differences, both adjusted and unadjusted, identified during the audit are detailed at Appendix 2.

27. We also identified disclosure and presentational adjustments during our audit which have been reflected in our final set of financial statements and are disclosed at Appendix 2.

Internal controls

28. 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 we identify any control weaknesses as part of our testing, 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

29. We followed up on progress in implementing actions raised in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 4.

Area	Assessment	Comment
Control and process environment	**Satisfactory**	We consider the control environment within the entity to be satisfactory. We have however identified recommendations which would further strengthen the College's internal control environment. These are detailed in Appendix 3.
Quality of supporting schedules	**Generally satisfactory, but with scope for improvement**	The supporting schedules received during the course of the fieldwork were sufficient for our audit purposes, subject to the issues noted previously re timeliness and level of amendments in some aspects.
Responses to audit queries	**Satisfactory**	Whilst delays were faced in obtaining a complete set of draft accounts, including the annual report, the College's responses to our audit queries were appropriate and received on a timely basis.

Other communications

Accounting policies, presentation and disclosures

30. 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.

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

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

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

Fraud and suspected fraud

34. We have previously discussed the risk of fraud with management. 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.

35. 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

36. 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

37. We provided the final letter of representation to the Board of Management for signing at the same time as the financial statements are approved.

Related parties

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

Confirmations from third parties

39. We have received all third parties confirmations required for the purpose of our audit.

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 related guidance and that the content is consistent with the financial statements.

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. This has informed the governance statement process and content.

Financial sustainability

Auditor judgement

The College has appropriate arrangements in place to prepare short and medium-term financial plans, but it continues to face significant challenges, operating within tight financial parameters and with cognisance of the national economic outlook. It has proactive measures in place to recognise, understand and scrutinise the challenges.

The College submitted its draft FFR which forecasts an underlying operating surplus in 2022/23 and operating deficits from 2023/24 to 2026/27. Potential income and expenditure savings opportunities totalling £2.792million have been identified for the period 2022/23 to 2026/27. The College has recognised that the achievement of the level of these identified savings is challenging and stretches the ability to maintain a sustainable curriculum offer, and difficult decisions lie ahead (including as informed by future resourcing allocations and the macroeconomic environment).

The College will continue to face challenges over the next few years in achieving a balanced financial position due to pressures on the College sector. The College's ability to develop and maintain its core services in a sustainable manner remains at significant risk from 2022/23 and beyond, and this requires continuing careful management and oversight.

Our approach to the wider scope audit

40. Our approach to the wider scope audit (as set out in our 2021/22 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.

41. During our audit we also considered the College's arrangements as they relate to the best value theme of fairness and equality.

42. Overall we concluded that the College has appropriate arrangements in place, as noted below.

Fairness and equality	In April 2021, the College set the following four equality outcomes for the period 2021-2025: • At Borders College, we will reduce gender imbalance in subject areas where there is a gender split of more than 75%; • At Borders College, we will improve diversity disclosure rates to better support and reflect the diversity of our workforce; • At Borders College, retention and success rates for protected characteristic groups are close to the average of the student population; and • At Borders College, staff and students will feel more confident to report hate crime and harassment The College is required to report on progress made against these equality outcomes at least every two years. The latest Mainstreaming Equality Report was published in April 2021 and is available on the College's website. Management recognise the importance of mainstreaming and integrating equality in day to day processes and decision making. The Equality Outcome Action Plan 2021-2025 details a number of initiatives that the College plans to implement. The Board and the supporting Committees are regularly presented with updates on the Equality Mainstreaming Report and the Equality Outcome Action Plan which they are encouraged to actively discuss and challenge. In addition, Equality Impact Assessments are scrutinised along with the relevant Board papers. Appropriate overall arrangements and objectives appear to be in place to oversee and report on delivery of the College's four equality outcomes.

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.

43. We are satisfied that the Governance Statement for the year to 31 July 2022 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.

44. 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.

45. 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 2022.

46. 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.

47. Principal Angela Cox left the College in September 2022. The new Principal Pete Smith took up the post in September 2022. Handover arrangements were in place such that the respective Principals have been able to provide assurance over the governance arrangements and system of internal control over the full period.

Governance arrangements during COVID-19

48. The College adapted its governance arrangements in response to the pandemic. In June 2022, the Board met in person for the first time since March 2020 and has agreed to adopt a hybrid approach to meetings going forward. Committee meetings have continued to be held virtually without significant disruption with the first in person Audit Committee meeting scheduled for November 2022.

49. The Board continued to receive and consider all standing agenda items during 2021/22 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

50. 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.

51. The most recent NFI exercise commenced in 2021. We completed a questionnaire and submitted this to Audit Scotland earlier this year.

52. NFI exercise did not identify any fraud or error. The College faced delays following changes in staff during the year which resulted in NFI data being

submitted late and the self-appraisal checklist not being completed.

53. Overall, we concluded that NFI arrangements are satisfactory with the exception of one point to improve the data submission timeliness.

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

54. 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 financial challenges, operating within tight financial parameters, and activity continues to plan the measures required to ensure the College is in a long term sustainable position.

The 2021/22 Financial Forecast Return (FFR), as approved by the Regional Board in September 2021, anticipated an operating surplus in 2021/22 and a break even position in 2022/23 and 2023/24. However, the achievement of this relies heavily on the delivery of savings; £0.852 million in 2022/23 and an additional £0.168 million in 2023/24. Recognising the need to consider savings at an early date, a 2022/23 savings plan was developed alongside the FFR. The achievability of some of these savings is dependent on the phasing of the College's response to COVID-19 however and further analysis of the viability of these is ongoing.

Staff costs continues to be a significant pressure area for the College and a key aspect of the College's ambitious savings plan. It is therefore crucial that the College focuses on development and implementation of operational plans which support the workforce strategy approved in December 2020. The emerging and uncertain impact on the College's finances and, ability to deliver savings plans and services in a sustainable manner remains a significant challenge and risk.

Noted in the 2021/22 External Audit Plan

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

2021/22 financial performance

56. The College reported a deficit before other gains and losses of £1.711million for the year ended 31 July 2022, equating to 11% of the College's total income.

57. Adjusting for non-cash transactions per SFC directions, such as depreciation (£0.201million), the net charge arising from the pension valuation (£1.894million), donations to arm's length foundation (£0.200million) and revenue funding allocated to loan payments (£0.252million), the College shows an "adjusted" operating surplus of £0.332million (2020/21: £0.307million).

58. The College set an ambitious savings target of £0.117million for 2021/22. This was delivered in full, a notable achievement in a year where the College faced such financial uncertainty.

2022/23 budget

59. The Board approved the 2022/23 budget in May 2022, in line with agreed timescales.

60. The 2022/23 budget projects an operating surplus of £0.001million. A technical change in the treatment of pension interest revised the 2022/23 surplus within the College's FFR to £0.181million. Adjusting for non-cash items such as notional interest and depreciation gives a forecast adjusted operating surplus of £0.180million.

61. Budgeted income of £15.539million is 1% lower than 2021/22 actual income. Final SFC allocations for 2022/23 were issued on 26 May 2022 and incorporated an increase across the sector of 1.9% in teaching funding, a decrease of 4.0% in student funding, a decrease in other non-core funding of 49.6%, and an increase in capital funding of £41.0million across the sector. In addition, the additional COVID-19 related funding provided in 2021/22 for Foundation Apprenticeships, digital learning and additional mental health support has been removed for 2022/23.

62. Budgeted expenditure of £15.358million is lower than 2021/22 actual expenditure. Increases in staff costs have been offset by savings elsewhere across the budget.

63. Achievement of an operating surplus position is dependent on the College's performance in delivering savings targets. A significant savings plan totalling £0.537million has been identified as detailed in Exhibit 2.

Exhibit 2: 2022/23 Savings Plan

	£'000
Additional credit income	269
Additional FWFD income	65
Increased MA contract- SDS Income	106
Other Income	15
Additional cost of income delivery	(197)
Catering Improvements	75
Utilities consumption	35
HR- External and Internal Staffing	73
Facilities post Covid	31
IT Services	45
Innovation Fund	20

Total	**537**

Source: Financial Forecast Return 2021-22 to 2026-27

Capital Expenditure

64. The College has received an allocation of £0.220million for backlog maintenance and £0.193million for lifecycle maintenance. In addition, the College has planned to utilise funding of £0.200million from Borders Further Education Trust (BFET) and £0.155million of the College's cash balance to support the 2022/23 capital programme.

65. In additional to Planned Preventative Maintenance programme and continued investment in IT infrastructure, the College intends to focus on reducing the carbon footprint. The 2022/23 capital plan details initiatives to support sustainable investment including capital spend on electric vehicles and analysing further opportunities for decarbonisation of the existing heating systems deployed across the estate.

Medium term financial forecasts

66. Due to the significant financial pressures facing the College sector the SFC requested that a financial forecast be submitted for the period of 2021-22 to 2026-27 as part of the FFR process. The SFC published guidance in August 2022 and the draft FFR was submitted to the SFC for October 2022.

67. 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. The SFC has taken into account the results from the Scottish Government's Spending Review, published on 31 May 2022, and the subsequent impact on grant funding, pay costs and inflation when setting the FFR assumptions.

68. Assumptions include:

- Credit targets will remain stable.
- Flexible Workforce Development Funding will continue but with a likelihood of a reduced budget from 2023/24.
- Student support funding requirements will be fully met.
- SFC capital maintenance funding should be based on the final 2022/23 funding allocations.
- Funding for digital poverty will not continue at 2022/23 levels.
- 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.

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

70. The FFR anticipates an adjusted operating surplus in 2022/23 and adjusted operating deficits from 2023/24 to 2026/27, as shown in Exhibit 3.

Exhibit 3: Medium term financial forecasts	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Total income	15,539	15,226	15,357	15,466	15,217
Total expenditure	(15,358)	(15,806)	(16,108)	(16,321)	(16,348)
Operating surplus / (deficit)	**181**	**(580)**	**(751)**	**(855)**	**(1,131)**
Adjusted operating surplus / (deficit)	**180**	**(500)**	**(669)**	**(822)**	**(1,092)**

Source: Financial Forecast Return 2022/23 to 2026/27

71. Recognising the need to consider savings at an early date, potential income and expenditure savings totalling £2.255million have been included in the FFR for the period 2023/24 to 2026/27.

72. It is important that the College closely monitors the delivery of savings identified to ensure that achievement of savings either does not impact on the College's ability to deliver curriculum activity or support students and staff in future years, or that any such impact is overtly considered and reflected in scrutiny and governance discussions as the College seeks to balance competing demands and pressures.

73. At the request of the SFC, as part of the FFR the College considered an alternative scenario, based on assumptions developed by the College Directors of Finance to represent that group's take on the external environment which the College operates in. The key assumptions included within the alternative scenario are a reduction in Flexible Workforce Development Force, an additional pay increase of 5% and inflation increase of 2%. Under this scenario, the College's financial position would present a deficit position of £0.215million in 2022/23 increasing each year to £2.990million in 2026/27.

74. The College has recognised that based on the FFR and alternative scenarios, it would be extremely challenging to maintain the current curriculum offer under any scenario which includes a flat or reducing level of SFC funding.

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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: • 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; • 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; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; • maintaining proper accounting records; and • 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. 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. 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: • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • 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 2021/22 (with prior year comparators) is as follows:

	Current year £	Prior year £
Audit of Borders College (Auditor remuneration)	16,465	15,680
Total audit	**16,465**	**15,680**
Non-audit services	1,300	900
Total fees	**17,765**	**16,580**

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 team 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/publications/quality-of-public-audit-in-scotland-annual-report-202122

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.

Current year adjustments

No Detail Details of adjusted audit differences	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Reserves Dr / (Cr) £'000	SOCI Dr / (Cr) £'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: (56) Income and Expenditure reserve: 56	
2. Reclassification of Job Evaluation Balance		Provisions: 233 Accruals: (233)		
Net impact on (income) / expenditure (£'000)				Nil

Prior year adjustments

No Detail Details of adjusted audit differences	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Reserves Dr / (Cr) £'000	SOCI Dr / (Cr) £'000
1. Reclassification of Job Evaluation Balance (prior year restatement)		Provisions: 467 Accruals: (467)		
Net impact on (income) / expenditure (£'000)				Nil

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) £’000	Dr / (Cr) £’000	Dr / (Cr) £’000	Dr / (Cr) £’000
1.	Derecognition of accruals per extrapolated error identified in accruals testing		95		(95)
2.	Reversal of extrapolated error identified in expenditure testing		13		(13)
Net impact on (income) / expenditure (£’000)					108 increase

Disclosure amendments

No	Detail
1	Fixed Assets- presentation of completed assets transferred out of Assets Under Construction in ‘reclassification’ line of Fixed Assets note.
2	Staff Report- additional disclosures to address new FReM requirements.
3	Related party transactions – disclosure of transactions incurred with Colleges Scotland as deemed to be a related party.
4	Governance statement – disclosure of the handover arrangements in place for new Principal.
5	Remuneration Report- presentation of annualised pay for individuals not in post for the full year and update of disclosure to present salary and pension benefit bandings in line with FReM requirements.
6	Cash Flow Statement – presentation amendment of prior year and current year Cash Flow Statement to more accurately reflect the movement in Payables within the accounts.
7	Statement of Comprehensive Income- additional disclosure to present the net gain on revaluation of fixed assets as total comprehensive income.

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. Sufficient Audit Evidence — **Other observation**

Observation	During our audit we noted the following areas which management could not provide sufficient evidence to support their value: • One sample item in our accruals testing. • One sample item in our other operating income testing. From our audit testing, we do not deem these errors to be material to the annual accounts.
Implication	If not subject to regular review, there is a risk that accruals and other operating income are overstated within the annual accounts.
Recommendation	Management should undertake a detailed review of all transactions and balances within the annual accounts to ensure only supported amounts are recognised.
Management response	Our management account process includes a full review of our balance sheet reconciliations, we support the recommendation and will ensure the procedure is evidenced.

2. Purchase order documentation

Other observation

Observation	We identified from our audit testing that no audit trail is obtained when invoiced amounts for expenditure vary from the amount originally raised in the purchase order, for example due to the supplier providing discounts.
Implication	Without sufficient documentation to support variances between the original purchase order and the invoiced amount, there is a risk of expenditure being materially misstated due to incorrect amounts of expenditure being recognised in the annual accounts.
Recommendation	Procedures should be developed to include greater documentation for when variances are identified between the expenditure purchase order and invoice amount.
Management response	Noted, our controls centre on procedures to monitor costs above the purchase order, not below. Our system limitations in our procure to pay process are well known, and we will investigate an opportunity to provide system reporting on open purchase orders and purchase order variances.

3. Communication of Changes in Voluntary Severance Schemes

Other observation

Observation	As part of our 2020/21 audit, we identified a change that was made to the voluntary severance scheme (scheme as already approved by SFC), due to an individual resigning before the severance process was conducted. In effect, this reduced the quantum of those to be given severance by one individual and reduced the related cost. It was advised that evidence of this change being discussed could not be provided by management due to one individual being involved in the communication with SFC who left the College before our audit work commenced.
Implication	It is good practice to identify any changes in the nature and scope of voluntary severance to SFC guidance, even where this reduces the College's cost and quantum of individuals concerned.
Recommendation	We recommend that contingency planning is undertaken to ensure all documentation and correspondence with SFC in relation to voluntary severance schemes can be accessed and is retained, even when a key member of the team leaves the College.
Management response	Agreed, the process has been reviewed and all correspondence with SFC will be centrally stored by the people services department.

4. Journals posted with no description

Other deficiency

Observation	We identified six journals which were posted without descriptions. In line with ISA 240, a characteristic of fraudulent journals are those entries with little or no explanation or description. The journals identified were each for nil value, representing a lower risk of fraudulent journal postings.
Implication	There is a risk that incorrect or fraudulent postings could be made without detection by the College's finance team.
Recommendation	While our audit work did not identify any indications of incorrect or fraudulent journal postings, we recommend that the College reviews their journal processes to ensure journals cannot be posted without descriptions.
Management response	Agreed. Procedures reviewed to strengthen the journal approval process have been developed and implemented in 2021/22 as part of the revised Finance Procedures Manual.

5. Remuneration Report and accounts

Other observation

Observation	It was agreed prior to the audit commencing that a full set of accounts would be available on the first day of the audit but we did not receive this until five weeks later. In addition, when the Remuneration Report was received there were a significant number of errors identified from our audit testing, including some which were relatively straightforward and obvious.
Implication	With the Remuneration Report being a significant and important disclosure within the annual accounts, there is a risk that a large number of errors may result in material misstatement to a disclosure which is subject to particular public interest and scrutiny.
Recommendation	We recommend that greater due care is taken when producing the Remuneration Report within the annual accounts, and a clear timetable is produced and observed to make accounts available in line with agreed and organised deadlines.
Management response	Agreed, FREM updates to be reviewed to meet the requirements.

6. Password Controls

Other observation

Observation	It was noted that the College does not implement a forced password change policy with regards to its finance system.
Implication	This may increase the opportunity for unauthorised users to gain access to the College's finance systems.
Recommendation	Management should ensure that a strong password policy is enforced.
Management response	Our finance system is under review for change. Noted, the current password control process criteria is based on the level of complexity which negates the requirement for forced regular updates. This is detailed in the password policy and software controls on all systems in the college, the finance system cannot be accessed by an unauthorised user.

7. Opening Balances Processes

Other observation

Observation	We identified from our audit testing that the College uses a separate account code to reverse the prior year closing balances from the Income and Expenditure codes to allow the next year opening balances of these codes to be nil.
Implication	This method is more likely to result in human error by posting balances to a separate code, instead of closing off the year end ledger and rolling forward closing balances from the Income and Expenditure codes.
Recommendation	We recommend that procedures for reversing the prior year closing balances from the Income and Expenditure codes should be reviewed to identify whether the level of manual intervention can be reduced.
Management response	Noted, and to be reviewed.

Appendix 4: Follow up of prior year recommendations

Actions first raised in 2020/21

1. Accruals			
Recommendation	Management should undertake a detailed review of accruals in 2021/22 to ensure only reasonable, relevant and supported accruals are recognised.		
Rating	Other deficiency	**Implementation date**	31 July 2021
Outstanding	From out audit testing, we identified one accrual for which management could not provide sufficient evidence to support the value. We do not deem this error to be material to the annual accounts and have raised an unadjusted difference to reverse this item.		
Responsible Officer	Finance Business Partner	**Revised implementation date**	November 2022

Actions first raised in 2019/20

2. 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**	Initial - 31 July 2021 Current - March 2022
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 2023

Actions first raised in 2018/19

3. Asset management controls			
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 physical verified; • Information is consistent with other registers held across the College. Reconciliations and verification exercises should be performed at least annually to provide assurance over accuracy. Disposal controls and the established process should be reiterated to all staff and management should follow up on any disposals that cannot be mapped to the asset register.		
Rating	**Significant deficiency**	**Implementation date**	Initial – March 2020 Current – March 2022
Closed	Asset verification exercise was completed in 2021/22. Procedures were developed as part of the revised Finance Procedures Manual which include: • Assets should be physically verified at least once a year including photographic proof obtained for each asset. • At the end of each financial year the Head of Department is required to sign a year-end certificate for their department; this includes certifying that the Fixed Asset Register holds the correct number and type of assets held in the department.		

Actions first raised in 2017/18

4. 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. Additionally the College should ensure processes are consistent with the financial procedures manual.		
Rating	**Other deficiency**	**Implementation date**	Initial – Jan 2019 Current – March 2022
Closed	Procedures to strengthen the journal approval process were developed and implemented in 2021/22 as part of the revised Finance Procedures Manual.		

5. 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 Current – July 2022
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 where the annual report was not received until five weeks after the audit commenced. We continued to work closely with management to ensure deadlines were met.		
Responsible Officer	Finance Business Partner	**Revised implementation date**	July 2023

6. 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. 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 Current – July 2022
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. In 2021/22 a full Revaluation exercise was undertaken over the College's Land and Buildings portfolio. In addition, internal asset verification procedures were developed and implemented for the other asset categories to provide assurance of the condition of each asset. We continued to work closely with management to determine additional ways to provide assurance over the valuation of Land and Buildings in interim years between valuations.		
Responsible Officer	Assistant Principal Finance	**Revised implementation date**	July 2023