HENDERSON LOGGIE
Chartered Accountants

Borders College

Annual Audit Report for 2009/10 to the Board of Management and the Auditor General for Scotland

External Audit Report No: 2010/02

Draft Issued:	**16 November 2010**
2nd Draft Issued:	**19 November 2010**
Final Issued:	**2 December 2010**

HENDERSON LOGGIE

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Executive Summary

Corporate Governance

- The Group has shown a surplus for the year of £0.416 million (2008/09 - £1.107 million) against a planned surplus of £1.090 million set out in the 2009 Financial Forecast Return (FFR) to the Scottish Funding Council (SFC) in June 2009. The surplus for the year includes an exceptional Financial Reporting Standard (FRS) 17 pensions past service gain of £0.602 million, offset by exceptional restructuring costs of £0.162 million. The underlying operating deficit was £0.026 million (2008/09 - surplus £0.425 million). The planned surplus for 2009/10 included an exceptional gain on sale of assets of £1 million which did not materialise.

- The positive general reserve balance at 31 July 2010 was £3.651 million (31/07//09 - £3.411 million) excluding Pension Reserve of £3.787 million deficit (31/07//09 - £4.334 million deficit).

- The College's Corporate Governance Statement confirms that the College has applied the principles set out in the 2008 Combined Code on Corporate Governance.

- We identified no significant control weaknesses during our audit. In general, the College's key systems of internal control appear to be adequate, well designed and operating effectively.

- The College's internal auditors have concluded that: 'In our opinion Borders College has a framework of controls in place, in the areas which we have reviewed, that provides substantial assurance regarding the effective and efficient achievement of the College's objectives and the management of key risks, except those relating to network infrastructure and business continuity planning. Further work is required to improve arrangements in relation to network infrastructure and business continuity and, in our opinion, current controls provide limited assurance regarding the management of risk in these areas'. It was noted that College management did not accept some of the recommendations made following the network infrastructure and business continuity review and the overall conclusion. The Audit Committee was satisfied with the justifications given by management. This matter does not impact on our audit opinion.

- The report published by Her Majesty's Inspectorate of Education (HMIE) in June 2010 following its review of the College in March 2010 concluded positively on the processes in place at the College.

Performance

- The latest Corporate Plan, for 2010-2013, was approved by the Board of Management in March 2010. The plan deals with the likely challenges created by the economic downturn and by expected reductions in public spending for the period ahead. The new plan will be reviewed and updated annually.

- Regular performance reports were submitted to the Board and Committees during the year. Key Performance Indicators (KPIs) have been set to coincide with the Strategic Plan over the period to 2013.

- The College has a Risk Management Policy which sets out the College's underlying approach to risk management. The Operational Risk Register identifies the key risks facing the College, which are cross-referenced to the Strategic Plan and KPIs. The top risks from the Operational Risk Register are recorded on the Strategic Risk Register.

Executive Summary

Performance (Cont'd)

- The Board of Management discussed and approved the College's Sustainability Framework and Balanced Scorecard at its meeting on 11 March 2010 and these were subsequently submitted to the SFC.
- The College's subsidiary company, BC Business Consultants Limited, has experienced difficult trading conditions related to the current global economic climate. In March 2010, the Board of Management took the decision, based on a business case, to merge the business of BC Business Consultants Limited with Borders College, with effect from 1 August 2010, resulting in the creation of a dedicated business development and commercial delivery department within the College.
- There is an ongoing material risk to the FE sector in relation to how the global economy will perform which could continue to affect the College's commercial income. In addition, the Government's Strategic Spending Review highlighted significant public spending cuts which will impact on the College's future grant income and is likely to affect consultancy and training income, as some of these services are provided to public sector bodies. The College has already started to address these risks through the new Corporate Plan, Sustainability Framework and Finance and Procurement Strategy.
- The College recognises the importance of value for money (VFM). VFM is embedded within the College's Procurement Policy which was written recognising the Scottish Procurement Policy Handbook. One VFM review was carried out by the College's internal auditors during the year in relation to the arrangements for monitoring student satisfaction.

Financial Statements

- On 9 December 2010 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2010 and on the regularity of the financial transactions reflected in those financial statements.
- The annual financial statements of the College comply with the Accounts Direction issued by SFC and the Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.
- There were no audit adjustments made to the financial statements with only minor disclosure adjustments suggested. It was agreed not to amend the financial statements for four trivial adjustments on the grounds of materiality.
- The main elements of the College's Estate Strategy were completed in 2008/09 although the official opening of the Scottish Borders Campus at Netherdale by HRH the Princess Royal took place on 7 September 2009. Capital expenditure of £0.553 million incurred during 2009/10 mainly related to the addition of a single storey modular unit to the existing building at Newtown St Boswells together with the construction of a greenhouse.
- The Melrose Road campus continues to be marketed for sale by the College but, despite several interested parties, no firm offer has yet been received.
- The College has exceeded its SUMs target for 2009/10 by 180 WSUMs (0.5%) (2008/09 – 674 WSUMs, 1.9%).

Introduction

Background

1. 2009/10 was the fourth year of our five-year appointment as external auditors of Borders College ('the College'). This report summarises our opinion and conclusions and highlights significant issues arising from our work. It covers communication of findings from the audit required by ISA 260: Communication of Audit Matters with Those Charged with Governance.

2. The framework under which we operate under appointment by Audit Scotland is as outlined in our Strategic Planning Memorandum and 2009/10 Annual Audit Plan issued on 30 April 2010 and considered and approved by the Audit Committee on 6 May 2010. The scope of the audit was to:

   - provide an opinion on, to the extent required by the relevant authorities, the financial statements and the regularity of transactions in accordance with the standards and guidance issued by the Auditing Practices Board;

   - review and report on the College's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, and prevention and detection of corruption; and the College's financial position; and

   - review and report on the College's arrangements to manage its performance, as they relate to the economy, efficiency and effectiveness in the use of resources.

3. Our audit approach focused on the identification of the significant risks areas facing the College and the significant classes of transactions, estimates, other account balances and disclosures impacting upon the financial statements. These include:

   - compliance with legislation and financial regulations;

   - estates capital expenditure and the appropriateness of the accounting entries, including consideration of issues surrounding the Final Account / retention on the Scottish Borders Campus redevelopment;

   - recoverability of debtors;

   - recognition of funding provided for specific purposes and the regularity of corresponding expenditure;

   - achievement of commercial income target;

   - compliance with FRS 17 Retirement Benefits; disclosure of the material impact of moving from the Retail Price Index (RPI) to the Consumer Price Index (CPI) for future pension increases; and calculation of the provision for pension liabilities for early retirals;

   - the financial results of the College's subsidiary company and the impact on the Group financial statements; and

   - compliance with the SORP on Accounting for Further and Higher Education.

Introduction

Basis of Information

4. External auditors do not act as a substitute for the College's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

5. As our audit is designed primarily to enable us to form an opinion on the financial statements taken as a whole, our report cannot be expected to include all the possible comments and recommendations that a more extensive special examination would bring to light.

Acknowledgement

6. Our audit has brought us in contact with a range of College staff. We wish to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our responsibilities.

Financial Position

7. SFC circular SFC/31/2009, issued on 16 October 2009, defines a sustainable college as one which 'continually develops the quality of its learning activities to meet the changing needs of its customers, society and the economy, control its costs, and year on year secures sufficient income to resource its planned activities and enable a level of current and future investment necessary to maintain its assets.'

8. Table 1 provides a summary of the College's planned and actual financial results, based on the formal returns submitted by the College to the Funding Council. The actual results for 2009/10 include an exceptional FRS 17 pensions past service gain of £0.602 million, offset by exceptional restructuring costs of £0.162 million. Actual figures for 2008/09 included an exceptional gain on sale of assets of £0.864 million, offset by exceptional restructuring costs of £0.082 million and an impairment charge on land held for resale of £0.100 million.

Table 1: Comparison of planned and actual financial results

	2008/09 Actual £000	2009/10 Planned £000	2009/10 Actual £000	2010/11 Planned £000
Financial outturn: Surplus / (deficit)	1,107	1,090	416	(4)
Income and expenditure reserves (excl. pension reserve)	3,411	4,225	3,651	4,000
Cash balances	3,483	4,541	2,863	1,216

Source: Audited financial statements and 2009 and 2010 FFR

9. The planned figures for 2009/10 included an exceptional gain on sale of assets of £1 million which did not materialise. The other main reason for difference between planned and actual results is the pensions past service gain which was not factored into the 2009 FFR.

10. Overall, College income in 2009/10 has increased by £0.362 million (3.0%) over 2008/09 to £12.237 million. There has been a decrease of £0.251 million (2.7%) in SFC grants, including an increase of £0.170 million (2.3%) in recurrent grant; a decrease of £0.214 million in financial security grants released to the Income and Expenditure Account; and a decrease of £0.570 million (71.5%) in other SFC grants.

11. The main elements of this other SFC grant income relate to the Strategic Development Fund, SOSNET Blend2Learn and the Strategic Investment Fund, which are matched by related expenditure.

12. The release of SFC deferred capital grants has increased by £0.426 million (96.4%) over last year to £0.868 million due to the College's new campuses now being depreciated for a full financial year.

Financial Position (Cont'd)

13. Overall, there has been a decrease in tuition fees and education contract income of £0.188 million (10.4%) over 2009/10 to £1.624 million. This is made up of a decrease of £0.086 million (23.7%) in FE fees and a decrease of £0.028 million (7.7%) in HE fees. Education contracts income has also decreased by £0.074 million (5.8%).

14. Endowment and investment income shows a significant reduction of £0.131 million (78.0%) over 2008/09 to £0.037 million due to the lower interest rates offered by financial institutions and the reduction in the College's cash balances.

15. Other income has increased by £0.815 million (184.8%) over last year to £1.256 million as it includes the recovery of costs from Heriot-Watt University under Service Level Agreements (SLAs), which were in place for the full year in 2009/10.

16. Expenditure in 2009/10 has increased by £0.211 million (1.8%) over 2008/09 to £11.661 million primarily due to increases in: staff costs – £0.238 million (3.2%) to £7.611 million; depreciation – £0.469 million (71.0%) to £1.130 million; and interest payable – £0.276 million (135.3%) to £0.480 million, which have been offset by the pensions past service gain of £0.602 million and a decrease in other operating expenses – £0.170 million (5.3%) to £3.042 million.

17. Administrative and support staff received a 2% pay award and lecturing staff received a 3.3% pay award during the year, although average staff FTEs decreased by three on last year to 213. In addition to the staff costs noted above, redundancy costs provided for of £0.162 million have been recognised as an exceptional item in the Income and Expenditure Account.

18. The increase in the depreciation charge for 2009/10 is a result of a full financial year charge on the Scottish Borders Campus at Netherdale and the new Hawick Campus. The increase in interest payable relates to the interest on the now repaid loan facility, an increase in the FRS 17 pension finance cost and a full year interest charge on the Heriot-Watt University deferred consideration (refer paragraph 32 below).

19. Within other operating expenses the main movement relates to administration and central services costs, which show a decrease of £0.444 million (26.6%) on last year to £1.228 million due to more efficient procurement and other savings. This is offset by an increase in premises costs of £0.137 million (16.1%) to £0.989 million with the move to the new campuses; and an increase in teaching department costs of £0.151 million (24.2%) to £0.774 million, which can be partly explained by costs associated with the new BASE courses run by the College.

20. The College's cash balance at 31 July 2010 was £2.863 million, a decrease of £0.620 million (17.8%) on the previous year. While generating a positive cash position from the operating surplus and working capital management, the decrease in cash is due to a net outflow of funds of £2.615 million mainly arising from the repayment in the year of the £2.230 million bank loan facility in relation to the Scottish Borders Campus redevelopment project.

Financial Position (Cont'd)

2009/10 SUMS outturn

21. The College's outturn against its 2009/10 SUMS target is shown in table 2.

Table 2: 2009/10 SUMS outturn

	2008/09	2009/10
SUMS target	35,615	35,615
SUMS actual	36,289	35,795

Source: Audited SUMs returns

22. The College's internal auditors carried out the audit of the SUMs return for 2009/10. They concluded that the student data returns have been compiled in accordance with all relevant guidance; that adequate procedures are in place to ensure the accurate collection and recording of data; and, on the basis of testing, reasonable assurance can be taken that the FES return contained no material mis-statement.

FRS 17 Retirement Benefits

23. The College accounted for its participation in the local government pension scheme as a defined benefit scheme and accordingly this has resulted in the College's share of the net pension liabilities within the Scottish Borders Council Pension Fund (SBCPF) being shown on the Balance Sheet. This is consistent with the accounting treatment adopted in 2008/09.

24. Note 26 to the financial statements highlights the College's net pension liability position of £3.787 million within the SBCPF. This has moved significantly in the year from a net pension liability of £4.334 million at 31 July 2009. This change in financial position results mainly from the Government's announcement in June 2010 that future pension rate increases will be based on CPI rather than RPI, leading to decreased liabilities. The Accounting Standards Board's Urgent Issues Task Force issued an Information Sheet on 13 October 2010 providing draft guidance on the accounting implications of the Government's decision. Based on this guidance we consider that there has been a change in the obligation to the members, giving rise to a benefit change which should be accounted for as a past service cost. We also consider that this should be recognised in the accounting period to 31 July 2010 as the scheme members' expectations had already been modified at that date. This is in line with the treatment by the scheme's actuaries.

25. With the exception of liabilities arising from early retirals, the College is unable to separately identify its share of assets and liabilities in the Scottish Teachers' Superannuation Scheme as the scheme is notionally funded. The College has applied the concession allowed by FRS 17 and has accounted for the scheme as a defined contribution scheme. This is consistent with the accounting treatment adopted in 2008/09.

Capital Income and Expenditure

26. The College purchased assets with a value of £0.553 million during 2009/10 relating to assets under construction and plant & equipment. These have been funded from deferred capital grants. The main element of expenditure relates to the addition of a single storey modular unit to the existing building at Newtown St Boswells together with the construction of a greenhouse. The greenhouse was completed during 2009/10 and transferred to land & buildings.

Financial Position (Cont'd)

Capital Income and Expenditure (Cont'd)

27. Final construction snagging issues and costs for the main campus building at Netherdale are still being discussed between the College and the contractor. The latest anticipated final outturn figures show total expenditure of around £28.1 million for the Scottish Borders Campus redevelopment project against a revised budget at May 2006 of £27.7 million.

28. FRS 15: Tangible Fixed Assets and the SORP on Accounting for Further and Higher Education requires that where a tangible fixed asset comprises two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual useful economic life. The requirements of FRS 15 to capitalise and depreciate separately the components of what could previously have been treated as a single item ensures that the assets are charged to the Income and Expenditure Account over the periods in which they are consumed. The College is currently depreciating the Phase I works at Netherdale (£3.6 million); the new Hawick Campus (£3.9 million); and Phase II works at Netherdale (£19.4 million) as single items over 50 years. Although representation was received from College management last year that the assets do not comprise two or more major components with substantially different useful economic lives we suggested that consideration should be given to obtaining a survey from the College's professional advisors for this purpose. Such a survey has not been obtained. It is recognised that any increase in the depreciation charge to the Income and Expenditure Account would be largely off-set by a corresponding increase in the release of deferred capital grants.

29. Disposals during 2009/10 of £2.093 million relate mainly to fully depreciated plant & equipment scrapped following the move to the College's new campuses. Surplus buildings owned by the College continue to be marketed for sale. In particular, the Melrose Road Campus in Galashiels has had several interested parties but the verbal offer received last year has since been withdrawn. However, another commercial party has recently noted their interest in this site although no firm offer has yet been received.

30. Lease, facilities management, ICT and library agreements with Heriot-Watt University for the operation of the shared Scottish Borders Campus, which were signed in 2008/09, remain in place.

31. Funding for lifecycle costs is dealt with through a Campus Life Cycle Trust Fund, which the College and University pay into based on the proportions of their occupation of the building. Management of the Trust Fund is carried out through joint committees. Although a separate Trust Fund bank account has still to be formally set up, the College is using an existing bank account, previously utilised to manage the cash flows for the co-location project, to set aside funds for the Life Cycle Trust.

Deferred Consideration

32. Included in the College's Balance Sheet, under Creditors, is a deferred consideration of £4.584 million (31/07/09 - £4.718 million) relating to the acquisition of the Netherdale property in 2006/07. The settlement of the liability is in the form of the provision of rent free accommodation to Heriot-Watt University over a period of 17½ years, beginning in April 2009, the date of occupation of the shared campus facility.

Financial Position (Cont'd)

Provisions

33. The College has provisions in its balance sheet at 31 July 2010 of £0.478 million (31/07/09 - £0.065 million) - £0.004 million for dilapidation costs in respect of an Edinburgh property used by the College; £0.312 million in respect of Life Cycle costs for the Scottish Borders Campus; and £0.162 million in relation to redundancy costs recognised in the 2009/10 financial year.

Liabilities

34. The College has a material liability of £1.2 million in the financial statements at 31 July 2010 (31/07/09 - £1.0 million) in relation to student transport charges payable to Scottish Borders Council. This is based on amounts invoiced to the College up until March 2010 and an estimated accrual for the four month period to 31 July 2010. As in previous years, the Council has been unable to provide satisfactory information to the College to enable it to monitor and approve payments in relation to the transport contract. Although this issue gives rise to reputational and other risks for the College it is recognised that there has been close monitoring by Board of Management Committees and this area has also previously been reviewed by the internal auditors. Alternative arrangements for student transport are being considered and the College has already reduced its reliance on the Council by working with bus companies directly to issue passes.

Systems of Internal Control

Control environment

35. No material weaknesses in the accounting and internal control systems were identified during the 2009/10 financial statements audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Internal Audit

36. Audit Scotland's Code of Audit Practice directs us to maintain effective co-ordination with internal audit and place the maximum possible reliance on their work. Scott-Moncrieff provided internal audit services to the College in 2009/10. We have reviewed the scope and extent of work performed by internal audit during the year and considered the impact of their findings and conclusions on our work, where appropriate.

37. The College's internal auditors have concluded that: 'In our opinion Borders College has a framework of controls in place, in the areas which we have reviewed, that provides substantial assurance regarding the effective and efficient achievement of the College's objectives and the management of key risks, except those relating to network infrastructure and business continuity planning. Further work is required to improve arrangements in relation to network infrastructure and business continuity and, in our opinion, current controls provide limited assurance regarding the management of risk in these areas'. It was noted that College management did not accept some of the recommendations made following the network infrastructure and business continuity review and the overall conclusion. The Audit Committee was satisfied with the justifications given by management. This matter does not impact on our audit opinion.

Corporate Governance

Systems of Internal Control (Cont'd)

Her Majesty's Inspectorate of Education (HMIE) Review

38. We are also required by Audit Scotland's Code of Practice to contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. We therefore place reliance on the reported results of the work of statutory inspectorates in relation to corporate or service performance.

39. The report published by HMIE in June 2010 following its review of the College in March 2010 concluded that 'HMIE is confident that:

- learners are progressing well and achieving relevant, high quality outcomes;
- the college has in place high quality learning and teaching processes;
- learners are actively engaged in enhancing their own learning and the work and life of the college; and
- the college is led well and is enhancing the quality of its services for learners and other stakeholders.'

Corporate Governance Arrangements

40. The College has continued to develop its corporate governance arrangements over 2009/10 including: approval by the Board of new terms of reference for the Human Resources & Remuneration Committee and the Curriculum & Quality Committee; and discussion on Board efficiency and effectiveness. Board training provided during the year included an in depth training session on strategic planning in November 2009; a session on audit responsibilities in January 2010; and a risk workshop in May 2010.

41. A recruitment process was conducted during the year to replace Board members retiring and this proved successful with four new independent members joining the Board at 1 July 2010. New academic and support staff members were also appointed to the Board on the same date.

42. On 30 September 2010 Audit Scotland published a report on The Role of Boards, which looks at the role boards play in overseeing the performance of different types of public bodies and will be of interest to College Board members. In due course Audit Scotland will be asking auditors to follow-up the report and summarise what action public bodies have taken in response and if they have implemented the report's recommendations. The Clerk to the Board presented a paper to the College's Board of Management in September 2009 advising Members of the study.

43. Other sector-wide developments include the working group convened by Scotland's Colleges, the SFC and the Chartered Institute of Public Finance and Accountancy to support the development of a bespoke framework of governance for the College sector. In May 2010 the working group produced a consultation draft of a document entitled Delivering Good Governance in Scotland's Colleges: A Framework. The framework is based on The Good Governance Standard for Public Services and incorporates the elements of the Financial Reporting Council (FRC) Combined Code on Corporate Governance that are relevant to the sector. It is envisaged that the framework will replace the Guide for College Board Members published by the Association of Scotland's Colleges in 2006.

Corporate Governance

Corporate Governance Statement

44. Colleges are required to include a statement on their corporate governance arrangements within their annual financial statements. The statement describes the ways in which the College has complied with good practice in corporate governance, including the arrangements for risk management.

45. We are required to review the statement to assess whether the description of the process adopted in reviewing the effectiveness of the system of internal control appropriately reflects the process. We are not required to provide an opinion on the College's systems of internal controls.

46. The College's corporate governance statement for 2009/10 states that the College complies with all the provisions of the June 2008 Combined Code on Corporate Governance in so far as they apply to the further and higher education sector, and it complied throughout the year ended 31 July 2010.

47. Our audit opinion on the statement is covered by our auditor's report and is unqualified in thid respect.

48. In May 2010 the FRC issued a new edition of the Code, which will apply to financial years beginning on or after 29 June 2010.

Fraud and irregularity, standards and conduct, and prevention and detection of corruption

49. During 2009/10 we had regard to ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.

50. The College has appropriate arrangements in place, including current versions of its Administration Scheme (February 2010), Financial Regulations (September 2009) and an Anti-Fraud and Corruption Policy (September 2009). These documents are reviewed and updated periodically.

Performance

Introduction

51. The terms of appointment by Audit Scotland include a requirement for a proportion of our audit time to be spent on performance audit work. Performance audit work covers a variety of areas, both financial and non-financial, including both Audit Scotland centrally directed studies and locally determined studies based on agreement between each organisation and their auditors.

52. No performance audit studies were identified by Audit Scotland for the College during 2009/10.

Strategic and Operational Plans

53. The College's approach to the strategic planning process includes the focussed involvement of the Board of Management at a strategic planning event; college-wide staff consultation including through strategic planning workshops; and stakeholder input. The main theme of the Board Away Day in November 2009 was the development of a new three-year Corporate Plan for 2010-2013. A draft of the new Corporate Plan was presented to the Board of Management at its meeting on 11 February 2010 and, following on-line consultation with staff, was approved by the Board in March 2010. The plan takes account of the College's current position and recent achievements and deals with the likely challenges created by the economic downturn and by expected reductions in public spending for the period ahead.

54. The Corporate Plan is accompanied by a set of supporting strategies: Human Resources and Organisational Development; Finance and Procurement; ICT; Estates; Marketing and Communications; and Learning and Teaching.

55. Internal audit reviewed the College's overall operational planning process during the year and concluded that this was 'clear and effective'. A small number of areas were identified as having scope for improvement and action was agreed by management to address these.

Risk Management

56. The College has a Risk Management Policy which sets out the College's underlying approach to risk management and the roles and responsibilities of the Board of Management, the College Principal, the College's Risk Management Team and other key parties. The main reporting procedures are also identified. The latest version was approved by the Board of Management in December 2008 and updated in September 2009.

57. The College has undertaken further work during 2009/10 to develop and embed the system of internal control, including risk management. The Senior Management Team, in its role as the Risk Management Group, undertakes a comprehensive review of risks annually based on the current Corporate Plan. The review looks at the effectiveness of the controls implemented, the progress made with risk mitigation actions and considers any new risks arising. Quarterly updates are presented to Board of Management committees by the Senior Management Team.

58. The Operational Risk Register identifies the key risks facing the College, which are cross-referenced to the Corporate Plan and KPIs. The gross and residual risks are assessed using a scoring system based on the risk likelihood and impact. The register also shows the actions being taken to reduce and mitigate the risks. All risks are assigned to managers responsible for monitoring. The top risks from the Operational Risk Register are recorded on the Strategic Risk Register, which identifies the members of the Senior Management Team and Board committees responsible for monitoring the risks.

Performance

Performance Management

59. The Board of Management received an update on progress against College strategic priorities for 2009/10 at its meetings in February and June 2010.

60. The College has developed an updated performance management framework that is set out within the Corporate Plan 2010-2013 and includes KPIs covering two main headings: Learners and Corporate Performance. 12 KPIs are used with targets set for each year covered by the plan. Progress against these KPIs will be regularly reviewed and monitored by the College Senior Management Team and the Board of Management.

61. In order to achieve its corporate ambitions for 2010-2013 a set of strategic priorities will be identified for action in each year of the plan. These priorities will be published and will drive forward the operational actions of the College in each 12 month period. These actions will be identified, reviewed and monitored through the College Development Plan, which also contains actions to address developments identified through the College's system of Internal Review and Self-Evaluation. The Board of Management approved the Annual Strategic Priorities for 2010/11 at its meeting on 17 June 2010.

62. A College Level Self-Evaluation Report 2009/10 and Development Plan 2010/11 was prepared by the Senior Management Team in October 2010. This includes: achievements in meeting the agreed Strategic Priorities for 2009/10; analysis of KPIs for 2009/10; a summary of internal reviews; significant changes to the Curriculum Plan; a review of the College Level Development Plan 2009/10; identification of strengths and areas for improvement; identification of areas for development in the coming academic year; and excellent practice identified by HMIe.

63. Internal audit reviewed the College's overall performance management process during the year and concluded that this was 'clear and effective'. A small number of areas were identified as having scope for improvement and action was agreed by management to address these.

64. In October 2009 the SFC issued guidance on developing a sustainability framework under cover of SFC/31/2009. The sustainability framework is a statement endorsed by the Board of Management to explain how and why they consider the College to be sustainable. It should incorporate performance measures presented in the form of a balanced scorecard using the listing of the core performance indicators provided at Annex D of SFC/31/2009, which should also be included within the College's Operating and Financial Review. The framework requires to be produced as a supplement to the main Strategic Plan. SFC/31/2009 also required colleges to confirm that they have conducted appropriate scenario planning in light of possible reductions in public funding and the wider implications of changing economic conditions.

65. The Board of Management discussed and approved the College's Sustainability Framework and Balanced Scorecard at its meeting on 11 March 2010 and these were subsequently submitted to the SFC.

Financial Management

66. The Finance and General Purposes Committee monitors performance against the College's rolling revenue and capital budgets. A suite of reports is prepared to update the Committee on College performance. The reports summarise the income and expenditure for the year-to-date, with reasons for significant variations and proposed revisions to the outturn budget although the format is currently under review. Also included are a balance sheet; key statistics (liquidity ratios, cash at bank, YTD income and expenditure % against budget); project monitoring; and WSUMs projections.

Performance

Financial Management (Cont'd)

67. The College Senior Management Team monitors and reviews progress through monthly reporting and management accounts.

68. The College's budget for 2010/11 was approved by the Board of Management at its meeting in June 2010. It was noted that the following resilience measures are being taken across the College and the budget assumed that savings are made from these measures: no inflationary pay awards; review of teaching hours; more efficient procurement; early retirement offer; restructure of BC Business Consultants Limited (see paragraph 70 below); review of all vacancies; and creation of new roles to reduce costs.

69. A Finance and Procurement Strategy document 2010–2013 was prepared by the Director of Finance and Resources in May 2010 and approved by the Finance and General Purposes Committee. In support of the Corporate Plan and the principle of institutional sustainability, this strategy sets out aims, strategic objectives and specific targets applicable to the College in the period 2010-2013. The Finance and General Purposes Committee receives regular monitoring reports.

70. The College's subsidiary company, BC Business Consultants Limited, has experienced difficult trading conditions related to the current global economic climate. The profit for the year achieved by the subsidiary was £0.068 million (2008/09 - £0.018 million) however this included an exceptional FRS 17 pensions past service gain of £0.176 million meaning that the underlying position was a loss of £0.108 million. In March 2010, the Board of Management took the decision, based on a business case, to merge the business of BC Business Consultants Limited with Borders College resulting in the creation of a dedicated business development and commercial delivery department within the College. It is envisaged that this change (from 1 August 2010) will allow the new department to deliver its key strategic role in relation to workforce development and training more in line with the strategic direction of the College as a whole. It will also remove costly and complex administration processes.

71. There is an ongoing material risk to the FE sector in relation to how the global economy will perform which could continue to affect the College's commercial income. In addition, the Government's Strategic Spending Review, released on 13 October 2010, highlighted significant public spending cuts which will impact on the College's future grant income from the SFC and is likely to affect consultancy and training income, as some of these services are provided to public sector bodies or to organisations who receive significant funding from the public sector.

Efficient Government Initiative (EGI)

72. The College submitted updated EGI information schedules to the SFC in January 2010. This included a forecast for the period 2009/10 to 2010/11 showing total projected efficiencies of £1.613 million, including £1.250 million expected from the sale of old College sites in 2010/11 (these proceeds part-fund new builds and reduce the necessity for borrowings). The other main areas giving rise to efficiencies are management restructures and the creation of shared facilities management and ICT services with Heriot-Watt University. At the date of this report the quantification of actual savings for 2009/10 was not available. This information will be included on a return to SFC, due to be submitted in January 2010.

Value for Money (VFM)

73. The College recognises the importance of VFM. VFM is embedded within the College's Procurement Policy which was written recognising the Scottish Procurement Policy Handbook.

Performance

Value for Money (Cont'd)

74. The College makes good use of National and Advanced Procurement for Universities and Colleges (APUC) contracts. In the current year, the College rolled out APUC's e-procurement system PECOS.

75. One VFM review was carried out by the College's internal auditors during the year:

VFM – Student experience: arrangements for monitoring student satisfaction

- The internal auditors concluded that the College's overall arrangements for measuring and responding to student satisfaction are sufficient and appropriate. Several areas of good practice were identified together with some areas with scope for improvement. Action was agreed by management to address these.

Financial Statements

Audit Opinion

76. On 9 December 2010 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2010 and on the regularity of the financial transactions reflected in those financial statements.

Audit Completion

77. An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. We have summarised in table 3 the three key elements of the audit process that we require the College to engage with.

Table 3: Key elements of the audit process

Completeness of draft financial statements
A set of draft financial statements was received at the start of the final audit visit. These were of a high standard and required minimal changes as part of the audit process.

Quality of supporting working papers
In accordance with our normal practice, we issued a 'prepared by client' request that set out a number of documents required for our audit of the financial statements. A full set of supporting working papers were provided in line with this list from the outset of the audit and were of a suitably high standard.

Response to audit queries
We are pleased to note that all audit queries were dealt with in a timely manner.

Audit Adjustments and Confirmation

78. There were no audit adjustments to the financial statements required following the audit process. It was agreed not to amend the financial statements for four trivial adjustments on the grounds of materiality. The overall impact of these adjustments would have been to decrease the surplus for the year by £0.001 million.

79. A number of disclosure and clarification adjustments were made to the financial statements to ensure SORP and Accounts Direction compliance and improve the overall presentation of the financial statements.

Confirmations and Representations

80. We confirm that as at 2 December 2010, in our professional judgement, Henderson Loggie CA was independent within the meaning of regulatory and professional requirements and the objectivity of audit staff was not impaired.

81. In accordance with auditing standards, we obtained representations from the College on material issues.