Borders College

Annual Audit Report for 2010/11 to the Board of Management and the Auditor General for Scotland

External Audit Report No: 2011/02

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Notice: About this report

This report has been prepared in accordance with our responsibilities under International Standards on Auditing (ISA) and those set out within Audit Scotland's Code of Audit Practice ('the Code') and Statement of Responsibilities of Auditors and Audited Bodies.

This report is for the benefit of only Borders College and is made available to Audit Scotland (together with the beneficiaries), and has been released to the beneficiaries on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without prior written consent.

Nothing in this report constitutes a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than the limited circumstances set out in the scope and objectives section of this report.

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Executive Summary

Corporate Governance

- The Group has shown a surplus for the year of £0.384 million (2009/10 - £0.416 million) against a planned deficit of £0.004 million set out in the 2010 Financial Forecast Return (FFR) to the Scottish Funding Council (SFC) in June 2010.

- The Group's positive general reserve balance at 31 July 2011 was £4.326 million (31/07/10 - £3.651 million) excluding Pension Reserve of £4.406 million deficit (31/07/10 - £3.787 million deficit).

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

- 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. Satisfactory arrangements are in place, in the areas we have reviewed, to promote and secure value for money.'

Performance

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

- 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 key performance indicators (KPIs). The top risks from the Operational Risk Register are recorded on the Strategic Risk Register. These are reported to the Board and Board committees.

- The Board of Management approved the College's Annual Strategic Priorities for 2010/11 at its meeting on 17 June 2010 and updates on progress against these were made to the Board during the year.

- Other performance reports were submitted to the Board and Committees on a regular basis during the year, including KPI reports.

- As reported last year, the business formerly carried out by the College's subsidiary company, BC Business Consultants, was transferred to the College on 1 August 2010 resulting in the creation of a dedicated business development and commercial delivery department within the College.

- 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. The College's internal auditors consider VFM where applicable on all internal audit assignments.

Executive Summary

Financial Statements

- On 15 December 2011 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2011 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 2007 Statement of Recommended Practice (SORP) on Accounting for Further and Higher Education.

- There were no audit adjustments to the financial statements required following the audit process although a number of accounting entries were made following the conclusion of discussions on technical matters, mainly regarding the transfer of pensions from BC Business Consultants Limited to the College. It was agreed not to amend the financial statements for four trivial adjustments on the grounds of materiality.

- Capital expenditure of £0.382 million incurred during 2010/11 mainly related to the completion, in March 2011, of work at Newtown St Boswells to refurbish the former admin block to create social and learning space.

- Although an offer for the Melrose Road campus was considered by the College during the year this has not been concluded and the property continues to be marketed for sale.

- The College failed to meet its SUMs target for 2010/11 by 586 WSUMs (1.6%) (2009/10 – exceeded by 180 WSUMs, 0.5%). This is within the tolerance allowed by the SFC and therefore no clawback will arise.

Outlook

- The future for all colleges will include change driven by funding constraints and Scottish Government plans for rationalisation of education provision to over 16s. A number of reviews and consultations are currently underway to inform change, with increased regionalisation a key message from the Scottish Government.

- The College Principal has been involved with Scotland's Colleges, Scotland's Rural Colleges, and the Scottish Government during the consultation period on these proposed changes. The Senior Management Team has commenced work on a response to the proposals, with a joint Senior Management Team meeting having been arranged with Dumfries & Galloway College. The College Board of Management has also been fully involved in discussions, including at a Board Strategy Day.

- Further steps will also be taken in preparation of funding cuts including: modelling of financial scenarios, including scenarios around regional distribution; further reviewing curriculum areas; reviewing how the College curriculum plan earns SUMs; and continuing to work to increase commercial opportunities.

Introduction

Background

1. 2010/11 was the final 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 2010/11 Annual Audit Plan issued on 18 April 2011 and considered and approved by the Audit Committee on 2 June 2011. 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 risk 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 possible sale of the old College campus and treatment of the disposal of College buses funded by SFC grants;

   - recoverability of debtors;

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

   - achievement of planned budget, including commercial income targets, to ensure that there is not a deterioration in financial position;

   - compliance with FRS 17 Retirement Benefits and accounting for the transfer of the pension liability from BC Business Consultants Limited to the College on 1 August 2010; 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. To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff of the College. Except to the extent necessary for the purposes of the audit, this information has not been independently verified. The contents of this report should not be taken as reflecting the views of Henderson Loggie CA except where explicitly stated as being so

6. 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

7. 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.

Corporate Governance

Financial Position

8. 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.'

9. 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 2010/11 include exceptional restructuring costs of £0.156 million. Actual figures for 2009/10 included an exceptional FRS 17 pensions past service gain of £0.602 million, offset by exceptional restructuring costs of £0.162 million.

Table 1: Comparison of planned and actual financial results

	2009/10 Actual £000	2010/11 Planned £000	2010/11 Actual £000	2011/12 Planned £000
Financial outturn: Surplus / (deficit)	416	(4)	384	(3)
Income and expenditure reserves (excl. pension reserve)	3,651	4,000	4,326	4,390
Cash balances	2,863	1,216	2,222	1,355

Source: Audited financial statements and 2010 and 2011 FFRs

10. The final surplus for 2010/11 of £0.384 million varies from the budgeted deficit of £0.004 million due mainly to: SFC income being £0.1 million higher than budget; and staff costs and other operating expenses both being less than budget by £0.2 million. This is partly offset by tuition fees and education contract income being £0.1 million lower than budget.

11. Overall, College income in 2010/11 has increased by £0.074 million (0.6%) over 2009/10 to £12.311 million. There has been an increase of £0.201 million (2.2%) in SFC grants, with the main movements being an increase of £0.253 million (3.4%) in recurrent grant; a decrease of £0.091 million (40.1%) in Other SFC grants; and an increase in deferred capital grants released to the Income and Expenditure Account of £0.102 million (11.8%).

12. SFC recurrent grants increased due to an increase in Fee Waiver of £0.150 million and an increase of £0.103 million in teaching grant and rural funding. The release of SFC deferred capital grants has increased due to the College's new campuses now being depreciated for a full financial year and also due to the release of deferred grants relating to buses sold by the College in the year.

Financial Position (Cont'd)

13. Overall, there has been a decrease in tuition fees and education contract income of £0.083 million (5.1%) over 2009/10 to £1.541 million. This is made up of an increase of £0.020 million (4.7%) in FE and HE fees and a decrease of £0.103 million (8.6%) in education contracts income.

14. Expenditure in 2010/11, excluding the exceptional pension credit and exceptional restructuring costs, has decreased by £0.599 million over 2009/10 to £11.664 million. The main components are a decrease in staff costs of £0.164 million (2.2%) to £7.447 million; a decrease in other operating expenses of £0.235 million (7.7%); and a decrease in interest payable of £0.173 million (36.0%) to £0.307 million.

15. The reason for the reduction in staff costs was that staff did not receive a pay increase during the year, and average staff full time equivalents (FTEs) decreased by five on last year to 208. In addition to the staff costs noted above, redundancy costs of £0.156 million have been recognised as an exceptional item in the Income and Expenditure Account. A total of 11 individuals volunteered for redundancy during the year, with a further 11 compulsory redundancies, amounting to 8.8 FTE posts.

16. Within other operating expenses the main movement relates to teaching department costs, which show a decrease of £0.154 million (19.9%) on 2009/10 to £0.620 million due to a reduction in teaching materials, development costs and use of agency staff. The other major reduction was in administration and central services which decreased by £0.099 million (8.1%) to £1.129 million due largely to childcare expenditure decreasing by £0.051 million and other miscellaneous movements. This is partly offset by an increase in catering costs of £0.036 million (128.6%) to £0.064 million.

17. The decrease in interest payable of £0.173 million largely relates to a reduction in FRS17 pension interest due to changes in actuarial assumptions.

18. The Group's cash balance at 31 July 2011 was £2.222 million, a decrease of £0.641 million (22.4%) on the previous year. While generating a positive cash position from the operating surplus, the negative cash flow was largely as a result of paying creditors £1.7 million, including approximately £1.0 million to Scottish Borders Council in relation to the previous transport arrangements discussed in paragraph 33 below.

2010/11 SUMS outturn

19. The College's outturn against its 2010/11 SUMS target (including an additional economic downturn allocation of 297 WSUMs) is shown in table 2.

Table 2: 2010/11 SUMS outturn

	2008/09	**2009/10**	**2010/11**
SUMS target	35,615	35,615	35,912
SUMS actual	36,289	35,795	35,326

Source: Audited SUMs returns

Financial Position (Cont'd)

20. The College's internal auditors carried out the audit of the SUMs return for 2010/11. 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

21. 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 previous years.

22. Note 26 to the financial statements highlights the Group's net pension liability position of £4.406 million within the SBCPF. This has moved significantly in the year from a net pension liability of £3.787 million at 31 July 2010. This change in financial position results mainly from the actuaries assumptions, including a reduction in expected pension asset returns and a decrease in discount rate which increases the calculated future liabilities. With the transfer of the business formerly carried out by BC Business Consultants Limited to the College on 1 August 2010 the subsidiary's net pension liability at that date (£1.111 million) was transferred to the College. This had no impact on the Group position.

23. 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 2009/10.

Capital Income and Expenditure

24. The College purchased assets with a value of £0.382 million during 2010/11. These have been funded largely from deferred capital grants. The main element of expenditure relates to the completion, in March 2011, of work at Newtown St Boswells to refurbish the former admin block to create social and learning space.

25. Final construction snagging issues were cleared and costs for the main campus building at Netherdale were agreed between the College and the contractor during the year.

26. 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 has previously been received from College management 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.

Financial Position (Cont'd)

Capital Income and Expenditure (Cont'd)

27. Disposals during 2010/11 of £0.373 million cost (net book value £0.107 million) relate to College buses that were sold due to changes made to the student transport arrangements. The disposal proceeds of £0.149 million are repayable to the SFC as the buses were financed by SFC grants and these have been included in creditors at 31 July 2011. The loss on sale of £0.107 million is matched by the release of the remaining deferred grants resulting in no overall affect on the Income and Expenditure Account.

28. Surplus buildings owned by the College, including the Melrose Road Campus in Galashiels, continue to be marketed for sale. Although an offer for the Melrose Road Campus was considered by the College during the year this has not been concluded.

29. 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.

30. 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.

Deferred Consideration

31. Included in the College's Balance Sheet, under Creditors, is a deferred consideration of £4.444 million (31/07/10 - £4.584 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.

Provisions

32. The College has provisions in its balance sheet at 31 July 2011 of £0.647 million (31/07/10 - £0. 478 million) - £0.005 million for dilapidation costs in respect of properties leased by the College; £0.563 million in respect of Life Cycle costs for the Scottish Borders Campus; and £0.079 million in relation to proposed staff payments.

Liabilities

33. The College had a material liability of £1.2 million in the financial statements at 31 July 2010 in relation to student transport charges payable to Scottish Borders Council. The College has now changed its transport arrangements and is working with a private transport provider instead. An accrual of £0.165 million for outstanding amounts relating to the previous arrangement with Scottish Borders Council has been made at 31 July 2011. This is based on invoices received and estimated charges up to the end of the contract less payments made by the College to the Council.

Systems of Internal Control

Control environment

34. No material weaknesses in the accounting and internal control systems were identified during the 2010/11 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.

Corporate Governance

Systems of Internal Control (Cont'd)

Internal Audit

35. 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 2010/11. 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.

36. 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. Satisfactory arrangements are in place, in the areas we have reviewed, to promote and secure value for money.'

Other Inspection Bodies

37. 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.

38. Her Majesty's Inspectorate of Education (HMIe) annual review in March 2011 was favourable regarding the three review themes of high quality education, learner engagement and quality culture.

Corporate Governance Arrangements

39. The College has a Corporate Governance Guide which was prepared in 2004 and is currently being updated. This is in line with good governance set out in the 'Guide for College Board Members' published by the Association of Scotland's Colleges in 2006. All Board committees are formally constituted with terms of reference which have been approved by the Board. Members of committees are mainly independent members of the Board, one of whom is the Chair. The Administrative Scheme, which sets out the Terms of Reference of these committees, is on the College's website. At its meeting on 14 June 2011 the Board of Management agreed that the Commercial Advisory Board should become a standing sub-committee of the Board. This had taken the place of BC Business Consultants Limited Board and its role is to guide and provide support in relation to commercial income generation. The College's Code of Conduct sets out in detail the standard of conduct expected by Board members and this was updated in September 2011.

40. A new Chair of the Board was appointed on 1 January 2011 and the 'job descriptions' for the Chair and Vice Chair were reviewed.

41. 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 September 2011 we completed an Audit Scotland Impact Assessment on how the College had responded to the report. We noted that the Clerk to the Board had prepared a paper setting out the recommendations from the report and the College's position on these and this was presented to the Audit Committee and the full Board for discussion and decisions regarding any future actions. The Clerk to the Board has circulated the 'Questions for board members' set out at Appendix 3 of the Role of Boards report to the members of the College Board and plans to collate the responses and develop an action plan to address any areas highlighted for further improvement.

Corporate Governance

Corporate Governance Arrangements (Cont'd)

42. 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) 'UK Corporate Governance Code' that are relevant to the sector. It was originally envisaged that the framework would replace the 'Guide for College Board Members' however a new Guide is currently being developed as part of a separate exercise. At the present time the framework document has not been finalised and no timescale has been set for this. The Clerk to the Board intends to review the College's governance arrangements against the updated 'Guide for College Board Members' when it is issued.

43. In addition, Scottish Ministers have commissioned an Independent Review of College Governance. The review is being chaired by Professor Russel Griggs, chair of Dumfries and Galloway College board. The Review will develop recommendations which will help bring a new focus to further education governance while maintaining the important balance between accounting for public funds and preserving the benefits of an autonomous sector. The Review is expected to conclude by the end of 2011.

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 2010/11 states that the College complies with all the provisions of the 2010 UK Corporate Governance Code in so far as they apply to the further education sector, and it complied throughout the year ended 31 July 2011. The 2010 version of the Code included a small number of changes relevant to the sector. These related to: new principles on the role of the Chair of the Board and non-executive Board members; new and amended principles on the composition of, and appointments to, the Board; a new principle on the time commitment expected of Board members; a new provision that the Chair should agree and regularly review the training and development needs of each Board member; and an amended principle on the Board's risk management responsibilities.

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

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

48. During 2010/11 we had regard to ISA 240: The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements.

49. 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.

Outlook

2011/12

50. SFC funding to the College for 2011/12 is significantly lower than in previous years, with funding cuts first announced in December 2010 for 2011/12. The SFC's main grant allocation for 2011/12 was finalised in March 2011 and identified a cut of £0.676 million in revenue funding (Grant in Aid and Fee Waiver) to £6.913 million, and a reduction in capital funding of £0.192 million to £0.309 million, a reduction in total of £0.868 million or 10.7%.

51. The 2011 FFR shows a budgeted 2011/12 deficit of £0.003 million (2010/11 deficit £0.004 million). This is based on total budgeted income of £11.257 million (2010/11 £12.250 million) and expenditure of £11.260 million (2010/11 £12.254 million). The actual position for the two months to the end of September 2011 shows both income and expenditure is below budget and, overall, there was a £0.035 million surplus for the two months against a budgeted £0.072 million surplus for the same period.

52. The Board met on 27 January 2011 to discuss possible actions that could be taken to address funding cuts and after this management drew up more detailed options for ensuring the College would be able to break even in 2011/12. These were presented to the Board on 25 February 2011 and actions were approved, including restructuring curriculum, reducing support services, reviewing Human Resources and Information and Communications Technology (ICT) and restructuring the Community and Commercial Development Unit. Subsequently a budget was devised including these items and Faculties have drawn up action plans to put savings in place.

Beyond 2011/12

53. The future for all colleges will include change driven by funding constraints and Scottish Government plans for rationalisation of education provision to over 16s. A number of reviews and consultations are currently underway to inform change.

54. Scottish Government proposals indicate that funding mechanisms will be simplified in future, possibly as early as 2012/13. Funding will follow regional need, based on demography and economy, rather than continue to follow previous patterns based on historic performance. Rationalisation of course provision and removal of duplication is expected to be achieved through closer working or mergers of institutions.

55. The College Principal has been invited, along with nine other Principals, to work with the Scottish Government during the consultation period on these proposed changes, which ends on 23 December 2011. Furthermore, the Principal has been involved in discussions with Scotland's Colleges and Scotland's Rural Colleges regarding these changes.

Corporate Governance

Outlook (Cont'd)

Beyond 2011/12 (Cont'd)

56. The College Senior Management Team has commenced work on a response to the proposals. A joint Senior Management Team meeting has been arranged with Dumfries & Galloway College. The College Board of Management has also been fully involved in discussions, including at a Board Strategy Day.

57. Further steps will also be taken in preparation of funding cuts including:

- Modelling of financial scenarios, including scenarios around regional distribution;
- Further reviewing curriculum areas;
- Reviewing how the College curriculum plan earns SUMs; and
- Continuing to work to increase commercial opportunities, including further developing an approach to internationalisation.

Performance

Introduction

58. 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.

59. No mandatory performance audit studies were identified by Audit Scotland for the College during 2010/11. Audit Scotland's planning guidance identified optional follow-up work on improving public sector purchasing and the use of consultancy services. This was discussed with management but neither follow-up was undertaken. One impact assessment was completed as required and noted in paragraph 41.

Strategic and Operational Plans

60. The College's approach to the strategic planning process includes the focussed involvement of the Board of Management, staff consultation and stakeholder input. The College has a three-year Corporate Plan for 2010-2013 which was approved by the Board in March 2010. The plan deals with the challenges created by the economic downturn and by reductions in public spending for the period ahead.

61. 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.

62. Internal audit reviewed the College's strategic planning and reporting arrangements during the year and concluded that 'the College has developed effective arrangements for strategic and operational planning and for performance reporting to the Board of Management.

Risk Management

63. 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. This was last updated in August 2011.

64. 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.

65. As part of the planning cycle Faculties and Support Departments do an analysis of their strengths and weaknesses and rank their annual priorities. This process includes identifying risks and how to mitigate these.

66. 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. The Board of Management has in the past reviewed the College risk register on an annual basis, but from June 2011 this will now be quarterly.

Performance

Performance Management

67. In order to achieve its corporate ambitions for 2010-2013 a set of strategic priorities are identified for action in each year of the plan. These priorities are published and drive forward the operational actions of the College in each 12 month period. These actions are 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. A paper providing an update on progress against these was presented at the Board meeting on 10 March 2011. The Annual Strategic Priorities for 2011/12 were agreed at the Board meeting on 14 June 2011.

Self-Evaluation

68. A College Level Self-Evaluation Report 2010/11 and Development Plan 2011/12 was prepared by the Senior Management Team in October 2011. This includes: achievements in meeting the agreed Strategic Priorities for 2010/11; analysis of KPIs for 2010/11; a summary of internal reviews; significant changes to the Curriculum Plan; a review of the College Level Development Plan 2010/11; identification of strengths and areas for improvement; identification of areas for development in the coming academic year; and excellent practice identified by HMIe.

Financial Management

69. 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, year-to-date income and expenditure % against budget); project monitoring; and WSUMs projections.

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

71. The College's budget for 2011/12 was approved by the Board of Management at its meeting on 14 June 2011. This includes a number of resilience measures to ensure that costs are tightly controlled.

72. 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.

73. The College's subsidiary company, BC Business Consultants Limited, experienced difficult trading conditions related to the current global economic climate and ceased trading on 31 July 2010. As previously noted, the business formerly carried out by the subsidiary was transferred to the College on 1 August 2010 resulting in the creation of a dedicated business development and commercial delivery department within the College. There were a small number of transactions which the subsidiary company had in 2010/11 and the result for the year was a loss of £344. At 31 July 2011 the company had net liabilities of £1.146 million and a balance due to the College of £1.152 million, which mainly relates to the pension liability transferred to the College at 1 August 2010. This debt, together with the College's original £0.010 million investment in the subsidiary, has been provided for in the College's own financial statements although this has no impact on the Group position.

Performance

Value for Money (VFM)

74. 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. This was last updated in August 2011. The expenditure authorisation framework also puts in place controls to ensure that VFM is reviewed by College management.

75. The College makes good use of national Advanced Procurement for Universities and Colleges (APUC) contracts and used APUC's e-procurement system PECOS.

76. The College's internal auditors consider VFM where applicable on all internal audit assignments.

Financial Statements

Audit Opinion

77. On 15 December 2011 we plan to issue an audit report expressing an unqualified opinion on the financial statements of the College for the year ended 31 July 2011 and on the regularity of the financial transactions reflected in those financial statements.

Audit Completion

78. 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 on 11 October 2011, 10 days before the final audit visit, although a number of disclosures and a complete Operating and Financial Review were not contained within these. The financial statements were of a good standard.
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 from the outset of the audit and were of a suitably high standard.
Response to audit queries We found that audit queries were dealt with in a timely manner.

Audit and Accounting Adjustments and Confirmation

79. There were no audit adjustments to the financial statements required following the audit process although Table 4 includes accounting entries made following the conclusion of discussions on technical matters regarding the transfer of pensions from BC Business Consultants Limited to the College and the treatment of the disposal of College buses. 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 £0.002 million.

Financial Statements

Audit and Accounting Adjustments and Confirmation (Cont'd)

Table 4: Accounting adjustments

Description	**I&E DR £'000**	**I&E CR £'000**	**B/Sheet DR £'000**	**B/Sheet CR £'000**
Group				
Pension liability			480	
Current service cost		480		
Reversal of pension contributions				
Current service cost	413			
FRS17 interest cost		88		
FRS17 expected return – I&E reserve				133
Pension liability				192
FRS17 costs per actuary report not already adjusted				
I&E reserve			465	
Pension liability				465
STRGL movement				
Loss on disposal of assets	107			
Release of deferred capital grants		107		
Gross up of buses disposal entries				
College only (no affect on Group position)				
BCBC inter-company account			1,111	
Pension liability				1,111
Transfer of subsidiary company pension liability to the College				
Bad debts	1,152			
Impairment of investments	10			
Provision for bad debts				1,152
Investment in subsidiary				10
Provision against inter-company debtor and write down of investment				

Confirmations and Representations

80. We confirm that as at 7 December 2011, 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.