



**Scott-Moncrieff**  
business advisers and accountants

# Borders College

External Audit Plan  
2016/17

**May 2017**

# Contents

Introduction.....	1
Responsibilities of Scott-Moncrieff .....	3
Audit strategy .....	5
Annual Accounts .....	7
Wider scope audit.....	12
Audit outputs, timetable and fees .....	15
Appendix 1: Your audit team .....	18
Appendix 2: Statement of understanding.....	19

1

# Introduction

# Introduction

1. This document summarises the work plan for our 2016/17 external audit of Borders College ("the College"). The core elements of our work include:
  - an audit of the 2016/17 annual accounts and related matters;
  - relevant elements of wider scope audit as defined within the Code of Audit Practice (the Code); and
  - any other work requested by Audit Scotland.

## Audit appointment

2. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of Scottish Parliament. The Auditor General is independent and not subject to any control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of most public bodies in Scotland outside the local government sector, including further education bodies in Scotland, and reporting on their financial health and performance.
3. Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out her statutory functions, including monitoring the performance of auditors through a quality control process.
4. The Auditor General has appointed Scott-Moncrieff as external auditor of the College for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2016/17 and summarises:
  - our responsibilities as the external auditor;
  - our audit strategy;
  - our planned audit work and approach;
  - our proposed outputs and timetable; and
  - background to Scott-Moncrieff and the audit team.

## Adding value through the audit

5. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value 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 promote improved standards of governance, better management and decision making and more effective use of resources.
6. We welcome any comments you may have on the quality of our work and this report via: [www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX).
7. While this plan is addressed to the College, it will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

2

# Responsibilities of Scott-Moncrieff

# Responsibilities of Scott-Moncrieff

## Code of Audit Practice

8. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and it is a condition of our appointment that we follow it.

### Auditor responsibilities

9. 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 annual accounts, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
10. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.

### Small body provisions

11. The Code recognises that it is not likely to be appropriate or proportionate to apply the full wider scope audit to some small audited bodies.
12. We consider that the audit of Borders College should be carried out under the small body provisions of the Code. Further detail on our consideration, and the implications for our audit, can be found in Section 5: Wider scope audit.

**Exhibit 1: Audit dimensions of wider scope public audit**

Audit area	Scope
Financial sustainability	Financial sustainability looks forward to the medium (two to five years) and the longer term (over five years) to consider whether the body is planning effectively to allow it to continue to fulfil its functions in an affordable and sustainable manner.
Financial management	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
Governance and transparency	Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.
Value for money	Value for money is concerned with using resources effectively and continually improving services.

3

# Audit strategy

# Audit strategy

## Risk-based audit approach

13. 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 our audit focuses on the areas of highest risk.
14. Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise. Our audit planning is based on:



## Communications with those charged with governance

15. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed that these communications will be through the Audit Committee.

## Professional standards and guidance

16. We perform our audit of the annual accounts in accordance with International Standards on Auditing (UK) (ISAs), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

## Partnership working

17. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

### Audit Scotland

18. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

### Internal audit

19. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the College's total audit resource. The College's internal audit function is provided by Wylie & Bisset. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to the College is used efficiently and effectively.

4

# Annual accounts

# Annual Accounts

## Introduction

20. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the College's annual accounts.

## Approach to audit of annual accounts

21. Our opinion on the annual accounts will be based on:

### Risk-based audit planning

22. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the annual accounts will be based.

### An audit of key systems and internal controls

23. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the annual accounts.

24. The nature of the work we perform will be based on the initial risk assessment. We will examine the systems in place for compliance with best practice and the College's own policies and procedures.

25. We update our risk assessment following our evaluation of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

### A final audit of the annual accounts

26. During our final audit we will test and review the material amounts and disclosures in the annual accounts. The extent of testing will be based on our risk assessment.

27. Our final audit will seek to provide reasonable assurance that the annual accounts are free from material misstatement and comply with:

- the Statement Of Recommended Practice: accounting for further and higher education (the SORP);
- the Government Financial Reporting Manual (FReM), where applicable; and
- the Accounts Direction.

28. In order to provide assurance on the regularity of transactions, we review whether in all material respects, expenditure has been incurred and income applied in accordance with guidance issued by Scottish Ministers.

### Independent auditor's report

29. Our opinion on the truth and fairness of the annual accounts will be set out in our independent auditor's report which will be included within the annual accounts.

### Materiality

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

31. Our initial assessment of materiality for the annual accounts is £200,000, being 1.7% of the College's 2015/16 income. We will review our assessment of materiality throughout our audit.

32. We set a performance (testing) materiality for each area of work which is based on a risk assessment for the area. We will 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 of significant risk of material misstatement.

Area risk assessment	Weighting	Performance materiality
High	45%	£90,000
Medium	60%	£120,000
Low	75%	£150,000

33. We will report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;

- Uncorrected misstatements with a value in excess of £5,000; and
- Other misstatements below £5,000 that we believe warrant reporting on qualitative grounds.

## Key audit risks in the annual accounts

34. Auditing standards require that we inform the Audit Committee of our assessment of the risk of material misstatement in the annual accounts. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will update the Audit Committee if our assessment changes significantly during the audit.

### Exhibit 2 – Key audit risks in the annual accounts

#### 1. Management override of control

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 annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

- 
35. In response to this risk we will review the College's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly.

#### 2. Revenue Recognition

Under ISA 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. Practice Note 10 (revised) highlights that in the public sector most entities are net spending bodies and there is a risk of fraud over expenditure. 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.

- 
36. As part of our planning process we have considered the nature of the revenue streams at the College against the risk factors set out in auditing standards. We have determined that for SFC grant funding the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate revenue of this nature. We have concluded, however, the risk of fraud in relation to revenue recognition remains present in all other income streams.
37. We have considered the risk of fraudulent recognition of expenditure in line with Practice Note 10 and at this stage of the audit we do not believe the recognition of expenditure represents a material risk to the financial statements as we consider there is little incentive to manipulate expenditure. We will, of course, continue to monitor this position throughout the audit.
38. We will review the controls in place over revenue accounting. We will consider the College's key revenue transactions and streams and carry out testing to confirm that the College's revenue recognition policy is appropriate and has been applied consistently.

## Exhibit 2 – Key audit risks in the annual accounts

### 3. Post-employment benefits

The principal pension schemes to which the College makes contributions are: the Scottish Teachers Superannuation Scheme (STSS) and the Scottish Borders Council Local Government Pension Fund (LGPF).

The STSS is an unfunded multi-employer scheme and it is not possible to identify the College's share of the underlying assets and liabilities. As a result, the scheme is accounted for as a defined contribution scheme.

In the case of the LGPF, the College's share of the underlying assets and liabilities is identifiable and a net liability is recognised in the accounts. The College reported a net liability of £7.649million as at 31 July 2016 in relation to the scheme, an increase on the £3.917million equivalent position as at 31 July 2015. Given the scale of the liability recognised in relation to the LGPS a misstatement in the reported position could be material to the College's annual accounts.



- 39.** We will review the College's accounting for post-employment benefits and confirm that it complies with the requirements of the SORP. We will confirm that accounting for the LGPF is consistent with the actuaries' valuation and that the actuarial assumptions underpinning the valuation are reasonable and reflective of the College's circumstances.
- 40.** We will also review the accounting treatment adopted and disclosures over the STSS to confirm SORP compliance.

### 4. Asset Valuation

The College holds a significant level of fixed assets (net book value of £28.002million in 2015/16). Additionally the College expects material capital additions during the year (commitments of £995,000 were disclosed in 2015/16)

In line with the wider Scottish FE sector the College adopts a policy of revaluation, whereby land and buildings are measured at fair value. Under the SORP, revaluations must be sufficiently regular so that the carrying value of an asset at the reporting date is not materially different from its fair value. Additionally, the College must assess whether there are indications of impairment of assets at each reporting date.

The College's last formal, external valuation exercise took place in January 2014. Given the level of fixed assets held, a misstatement in the reported valuation could be material to the College's annual accounts.



- 41.** We will review the valuation of land and buildings and ensure that the College has completed a recent assessment for impairment. We will ensure fixed assets are recognised and measured in accordance with the SORP and the College's own accounting policies.
- 42.** We will review expenditure in year to ensure that capitalisation policies have been applied appropriately and consistently.

---

## Exhibit 2 – Key audit risks in the annual accounts

### 5. Netherdale campus

During 2006-07 the College acquired the Scottish Borders (Netherdale) Campus of Heriot-Watt University for a consideration of £4.75m. The cost of acquiring the Netherdale Campus is being repaid to the University over a 17.5 year term commencing April 2009, the date on which the College moved to the refurbished campus.

The contractual arrangements of the purchase have resulted in relatively complex accounting treatment which includes long and short term creditors being recognised in relation to aspects of the agreement with the University, as well as assets being recognised for the land and buildings themselves.



- 43.** We will review the accounting treatment adopted in relation to the Netherdale campus, and the related contractual commitments, and ensure the approach to all aspects of the agreement complies with the SORP.
-

5

# Wider scope audit

# Wider scope audit

## Introduction

44. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are:

- financial sustainability;
- financial management;
- governance and transparency; and
- value for money;

## Small body provisions

45. The Code recognises that planned audit work should be risk based and proportionate to the nature and size of an audited body. The Code recognises that it is not likely to be appropriate or proportionate to apply the full wider scope audit to some small audited bodies.

46. We consider that the audit of Borders College should be carried out under the small body provisions of the Code. We have reached this conclusion through our assessment of:

- the relative size of the College;
- the relative simplicity of the College's functions; and
- the College's risk profile, as informed through discussions with officers.

47. Application of the small body provisions of the Code results in a targeted and tailored wider scope audit for the College. Our work in 2016-17 will comprise an assessment of the College's arrangements as they relate to financial sustainability and targeted work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement.

48. Audit planning is a continuous process and our application of the small body provisions will be subject to ongoing review to ensure it remains appropriate. Should we identify any particular issue or risk during our audit that we consider requires additional work, or the full wider scope to be applied, we will update our audit plan.

## Exhibit 3 - Wider scope audit

Financial sustainability	Our audit approach
<p>It is the College's responsibility to put in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"><li>• Such financial monitoring and reporting arrangements as may be specified.</li><li>• Compliance with any statutory financial requirements and achievement of financial targets.</li><li>• Balances and reserves, including strategies about levels and their future use.</li><li>• How the College plans to deal with uncertainty in the medium and long term.</li><li>• The impact of planned future policies and foreseeable developments on the financial position.</li></ul>	<p>During our 2016/17 audit we will consider the College's financial standing.</p> <p>We will review and conclude on whether the College has arrangements that demonstrate that it has planned effectively over the longer term to continue to deliver its services or the way in which they should be delivered.</p>

Governance statement	Our audit approach
<p>The College is responsible for ensuring appropriate disclosures are made in the Governance Statement. The Governance Statement should meet the disclosure requirements prescribed by relevant guidance:</p> <ul style="list-style-type: none"> <li>• the Accounts Direction; and</li> <li>• Code of Good Governance for Scotland's Colleges.</li> </ul>	<p>There is a risk that the disclosures within the Governance Statement do not fully meet requirements, or do not reflect the College's activities during 2016-17.</p> <p>During our 2016/17 audit we will consider the appropriateness of disclosures made in the Governance Statement.</p>



**6**

# **Audit outputs, timetable and fees**

# Audit outputs, timetable and fees

Audit output	Format	Description	Target month
External audit plan	Report	This report sets out the scope of our audit for 2016/17.	May 2017
Independent Auditor's Report	Report	This report will contain our opinions on the truth and fairness of the annual accounts and on the regularity of transactions.	November 2017
Annual Report to the Audit Committee and the Auditor General for Scotland	Report	We will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinions, conclusions and the significant issues arising from the work. This report will pull together all of our work under the Code of Audit Practice.	November 2017

## Audit outputs

49. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
50. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

## Audit fee

51. Audit Scotland has completed a review of funding and fee setting arrangements and as a result revised its fee strategy. It now sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit.
52. The expected fee will be reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.

53. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body. For 2016/17 the expected fee, set by Audit Scotland, for the College's audit is £14,570. We consider that fee to be appropriate. The total fee for the College for 2016/17 is comprised as follows:

Composition of the audit fee	
Auditor remuneration	£13,020
Pooled costs	£810
Audit support costs	£740
<b>Total expected fee</b>	<b>£14,570</b>

54. We will take account of the risk exposure of the College and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

## Audit timetable

55. The dates for our interim and final audits have been discussed with the Audit Committee. A summary timetable, including audit outputs, is set out below:



7

# Appendices

# Appendix 1: Your audit team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 18 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

Edinburgh	Glasgow	Inverness
Exchange Place 3 Semple Street Edinburgh EH3 8BL	25 Bothwell Street Glasgow G2 6NL	10 Ardross Street Inverness IV3 5NS
(0131) 473 3500	(0141) 567 4500	(01463) 701 940

We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, further education bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

## Your audit team

The external audit team at Borders College will be led by David Eardley and managed by Michael Lavender. We will draw upon the expertise of our wider public sector management team during the course of our audit appointment.

### David Eardley CA –Engagement Lead

David has over 13 years' experience and specialises in external and internal audit of public sector clients. David's primary area of focus and expertise is in the health and education sectors.



David works with a range of public sector clients including the NHS, education and central government, from £1.3billion health boards to specialist central government entities. David has a wealth of technical accounting expertise, coupled with strong interpersonal and client relationship skills.

### Michael Lavender CPFA – Audit Manager

Michael has nearly a decade of public sector experience, delivering external audit services to a range of public sector bodies, including further education, local government, NHS and central government. He is a recognised technical accounting expert and sits on the firm's technical committee.



Michael works across our education, central government and NHS clients, bringing strong client management interpersonal skills.

Michael will manage the onsite audit team and work alongside David to deliver the audit engagement

## Confirmation of independence

Auditing standards require us to communicate on a timely basis all facts and matters that may have a bearing on our independence. In addition to the external audit Scott-Moncrieff provides the College with advice in relation to VAT. This non-audit work was subject to prior approval by Audit Scotland, is undertaken entirely independently from the audit team and does not involve a management role.

We confirm that we will comply with the FRC Ethical Standard – Integrity, Objectivity and Independence. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.

In particular there are and have been no relationships between Scott-Moncrieff and the College and senior management that may reasonably be thought to bear on our objectivity and independence.

# Appendix 2: Statement of understanding

## Introduction

The purpose of this Statement of understanding is to clarify the terms of our appointment and the key responsibilities of the College and Scott-Moncrieff.

## Annual accounts

We will require the annual accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant College staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statements strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

## Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the College's responsibility to establish 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.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the College during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the Audit Committee.

## Internal audit

It is the responsibility of the College to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

## Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

## Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

## Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

## Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting David Eardley. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

## Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work. Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

## Agreement of terms

We shall be grateful if the Audit Committee would consider and note this Statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



**Scott-Moncrieff**  
business advisers and accountants

© Scott-Moncrieff Chartered Accountants 2017. All rights reserved. "Scott-Moncrieff" refers to Scott-Moncrieff Chartered Accountants, a member of Moore Stephens International Limited, a worldwide network of independent firms. Scott-Moncrieff Chartered Accountants is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland.