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Borders College

Internal Audit 2021-22

Budgeting & Financial Reporting July 2022

Overall Conclusion

Substantial

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The matters raised in this report came to our attention during the course of our audit and are not necessarily a comprehensive statement of all weaknesses that exist or all improvements that might be made.

This report has been prepared solely for Borders College's individual use and should not be quoted in whole or in part without prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any third party.

We emphasise that the responsibility for a sound system of internal control rests with management and work performed by internal audit should not be relied upon to identify all system weaknesses that may exist. Neither should internal audit be relied upon to identify all circumstances of fraud or irregularity should there be any although our audit procedures are designed so that any material irregularity has a reasonable probability of discovery. Every sound system of control may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas that are considered to be of greatest risk and significance.

Overview

Purpose of review

The purpose of the review was to ensure that the College has appropriate budgetary and financial controls in place and that these have been embedded throughout the whole College. This was a review to provide assurance to the Audit Committee that the College's budgetary and financial control arrangements are adequate.

This review forms part of our 2021/22 Internal Audit Annual Plan.

Scope of review

Our objectives for this review were to ensure:

- There is appropriate control over the budgetary process within the College, with an appropriate member of management having ultimate responsibility for the process.
- Deviations from budget are identified and investigated at an early stage.
- The College has a set of comprehensive Financial Regulations to ensure that financial matters are managed professionally.
- Budget holders are adequately trained and receive information regarding their budgets in a timely manner.
- The budget setting process is effectively linked to the operational planning process.
- The College Board and Senior Management receive sufficient reporting of performance against budget and against plans throughout the year to enable informed decision making.

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

Limitation of scope

There was no limitation of scope.

Background Information

Financial Procedures and Financial Regulations

The College has a comprehensive Financial Procedures document. This was last reviewed in June 2022 while the College's Financial Regulations were last updated in November 2021. The College's Financial Procedures and Financial Regulations provide a clear overview of the budget setting and monitoring arrangements in place.

Budgeting Process

A full budget is prepared annually, in line with SFC reporting requirements, the 'FFR' containing P&L, Balance Sheet and Cashflow forecasts are submitted after authorisation from the Board annually in June for the following year.

The College utilise a zero-based budgeting approach, hold discussions with Budget Holders, encourage a granular ownership to the final agreed numbers which leads to accountability throughout the reporting calendar. Grant income and credit allocation funding guidance is provided by the Scottish Funding Council.

A mid-year forecast is similarly prepared and submitted to SFC annually in March.

Approved budgets and performance against the budgets are shared with Senior Management and Budget Holders on a regular basis, with information is presented monthly to the Senior Leadership Team and within Board Committee timetables.

Budgeting Timeline

The College has a document which outlines the timeline to complete their budget. This was used for the 2022/23 budgeting process where it states the activity to complete and who it should be completed by. The process started on the 7th February 2022 and was completed and approved by the Board on 16th June 2022.

The Regional Board and The Finance & General Purposes Committee

The Regional Board has overall responsibility for the strategic direction oversight of the management and administration of the College. The main responsibilities of the Board are approving the financial plan, forecasts, and the annual budget.

The main responsibilities of the Finance & General Purposes Committee are set out in the Board's Standing Orders, and these include:

- Agreeing Financial Regulations and recommending them to the Board.
- Recommend the annual budget to the Board and receive Business Review reports comparing actual and budget, and other financial indicators.

The Chief Financial Officer

The Vice Principal: Finance and Corporate Services is the College's designated Chief Financial Officer (CFO). The CFO is the financial advisor to the Principal and the Board. The main responsibilities of the CFO are:

- Being the financial advisor to the Principal and the Board.
- Developing and implementing the College's long term financial plan.
- Developing budget setting process aligned with College priorities.
- Provide timely, accurate and impartial financial analysis and advice.
- Provide training to allow managers to undertake their roles.
- Ensuring decision making is in line with financial thresholds.
- Prepare the annual report and financial statements on a timely basis.

The Senior Leadership Team

All members of the Senior Leadership Team (SLT) are responsible to the Principal for financial management for the areas or activities they control. Their main responsibilities are:

- The financial management for their areas or activities they control.
- Establishing and maintaining clear lines of responsibility within their departments for all financial matters.
- Preparing the annual report and financial statements, financial forecasts, plans and operational budgets.

1 EXECUTIVE SUMMARY

College Budget and Performance against budget

As of May 2022, the College's performance against budget is stated in the table below:

Cost Area	YTD 2021-22	YTD Bud 21-22	Var 21-22
SFC INCOME	£9,561,273	£9,446,848	£114,425
OTHER INCOME	£3,353,611	£2,887,238	£466,373
PAYS	(£8,138,618)	(£8,376,598)	£237,980
TEACHING RESOURCES	(£379,760)	(£267,208)	(£112,552)
HR	(£311,743)	(£252,518)	(£59,225)
TRANSPORT	(£71,251)	(£88,850)	£17,599
FM & UTILITIES	(£1,799,606)	(£1,801,896)	£2,290
CATERING	(£260,175)	(£216,333)	(£43,842)
JANITORIAL & WASTE	(£82,735)	(£101,583)	£18,848
ISLT	(£523,329)	(£452,801)	(£70,528)
PROFESSIONAL SERVICES	(£833,720)	(£686,541)	(£147,179)
OTHER FUNDED	(£35,945)	£-	(£35,945)
SFC FUNDED	£1,661	£-	£1,661
Grand Total	£479,663	£89,758	£389,905

The reasons for the variances highlighted above are:

- Increased revenue funding from the SFC for estates funding.
- Increased training agency income, other grant income and miscellaneous income.
- Increased funding from SFC to cover staffing costs.
- Increased costs spent on teaching materials for construction courses, STEM and CRF in Essential Skills.

Budget Holder Questionnaire

During our review we issued a questionnaire to Budget Holders, the results of the questionnaire are highlighted below:

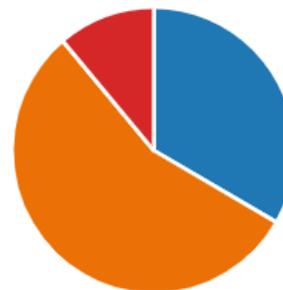
How long have you been a budget holder for the College?

● <1 year	0
● 1-2 years	0
● 2-4 years	4
● >5 years	5



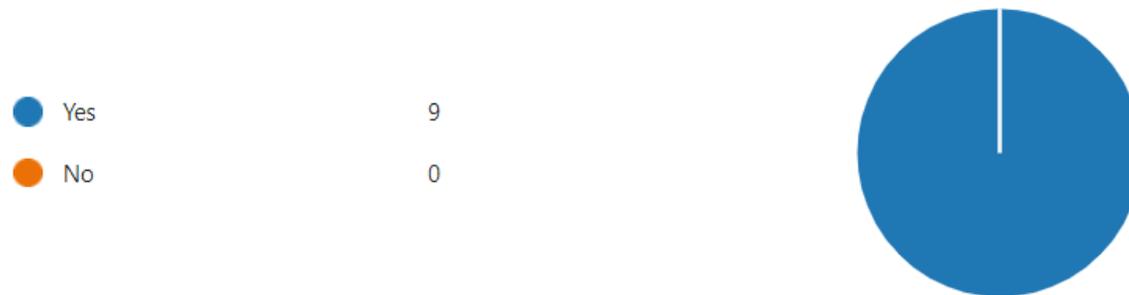
How strongly do you agree with the following statement: *"I have a clear understanding of my role as budget holder"*

● Strongly Agree	3
● Agree	5
● Disagree	0
● Strongly Disagree	1



1 EXECUTIVE SUMMARY

Did you have involvement with the budget setting process for the period 2021/22?



On a scale of 1 to 10, how would you rate the budgeting training provided by the College.

8
Responses

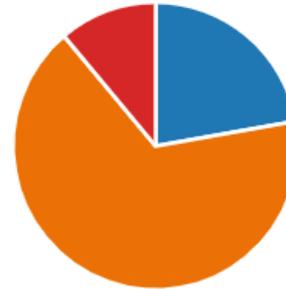
5.38
Average Number

We note that only 8 of the 9 Budget Holders responded to the question above. Of the 8 responses Budget Holders rated the training provided by the College on average as 5.38 out of 10.

1 EXECUTIVE SUMMARY

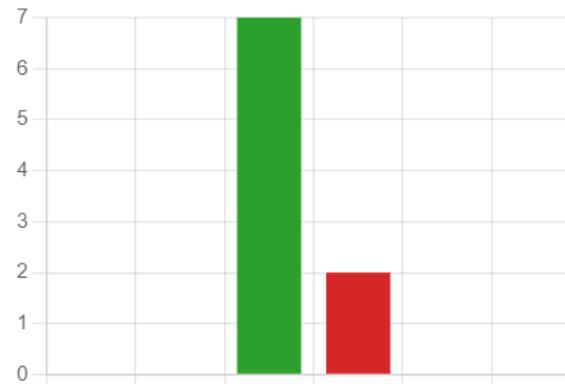
How strongly do you agree with the following statement: *The information provided by finance allows me to sufficiently monitor and track my budget.*

● Strongly Agree	2
● Agree	6
● Disagree	0
● Strongly Disagree	1



How often do you receive Budget Reports from Finance.

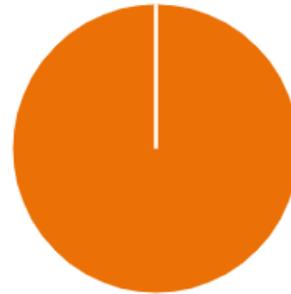
● Daily	0
● Weekly	0
● Monthly	7
● Quarterly	2
● Termly	0
● Never	0



1 EXECUTIVE SUMMARY

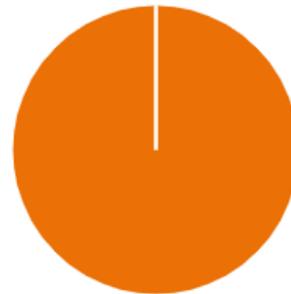
Do you utilise the College's Portal to monitor your budget live?

● Yes	0
● No	9

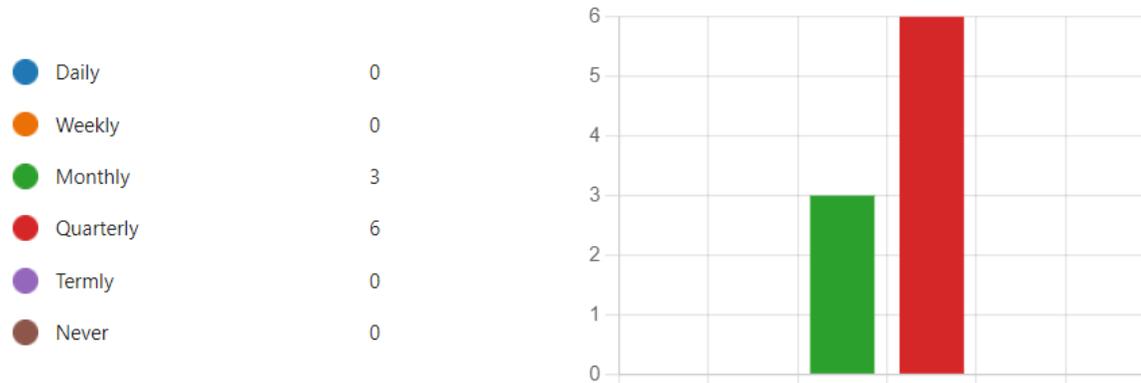


Do you scrutinise any income streams for the College?

● Yes	0
● No	9



How often do you meet with Finance to discuss your budget?



Results Summary

As seen from the results of the questionnaire that was undertaken by the Budget Holders of the College, the overall outcome was positive. It was found that 8 out of 9 respondents had a clear understanding of their role while 1 stated that they strongly disagreed with this. Please see Section 3: Detailed Recommendations for further information.

All Budget Holders confirmed that they attend meetings at least monthly to discuss and review their budget.

Regarding training, of the 8 that responded, they scored the training received on average as 5.38 out of 10. Please see Section 3: Detailed Recommendations for further information.

When asked if they had identified any issues surrounding the 2021/22 budget process, the majority stated that there were none, however we also received the following responses:

- 1) *The monthly figures are provided late by the Finance Team, and we often have to request them. It is frustrating that the Budget Holders autonomy in relation to our budget has been taken away from us. The general feeling amongst Budget Holders is that we will do as we are told rather than being active in setting and managing our budget.*
- 2) *There are some historic elements of our budget which were managed by the Finance Team and the management of this will need to be clarified going forward. We also lack access to up to date/live budget information.*
- 3) *I believe that the changes in depreciation due to the changes in accounting policy should be reflected within the budget for 2022/23. I also believe that additional income from Lennartz VAT recovery will allow us to make a donation to BFET from commercial income surpluses and the hand back of FA credits due to the difficulty in the delivery and we should plan for next year.*

We have raised a recommendation regarding training which will provide Budget Holders with further information regarding the comments highlighted above. Please see Section 3: Detailed Recommendations for further information.

Following our review of the questionnaire results, we spoke with the Assistant Principal: Finance who noted that over the past 18 months the Finance Team has reviewed the budget and monitoring process. As a result, several improvements have been made such as what information is provided to the Budget Holders and the detail behind this. This provides Budget Holders with access to various information that was not available beforehand. Detailed variance analysis is also presented monthly to the SLT allowing for review and challenge to help plan for differing scenarios. The Assistant Principal: Finance notes that they believe that they are on a journey to improve the process and reporting further by implementing new financial and accounting systems.

Work Undertaken

The work undertaken during our review included the following:

Objective 1: There is appropriate control over the budgetary process within the College, with an appropriate member of management having ultimate responsibility for the process.

- Discussions with the Finance Business Partner to establish the budgetary and financial reporting arrangements in place.
- Evaluating these arrangements to confirm their adequacy and evaluating whether they comply with current guidance and good practice.
- A review of documentation to confirm whether policies and procedures are in place and that current arrangements comply with good practice.

Objective 2: Deviations from budget are identified and investigated at an early stage.

- Ensuring that Budget holders understand the reason for any overspend.
- Reviewing the steps taken by the College should a variance occur.

Objective 3: The College has a set of comprehensive Financial Regulations to ensure that financial matters are managed professionally.

- Obtaining and reviewing the Financial Regulations to ensure they accurately and robustly document the budget process.

Objective 4: Budget holders are adequately trained and receive information regarding their budgets in a timely manner.

- Assessing the results of the questionnaire we issued to Budget Holders to assess the training and support arrangements in place for Budget Holders.
- Obtaining and evaluating a sample of reports produced for Budget Holders to ensure that these are clear, frequent and robust.

Objective 5: The budget setting process is effectively linked to the operational planning process.

- Discussions with management as to how the budget planning process links to the College's overall operational framework.

Objective 6: The College Board and Senior Management receive sufficient reporting of performance against budget and against plans throughout the year to enable informed decision making.

- An appraisal of the adequacy of information provided to Senior Management for decision making.
- Reviewing the reporting arrangements in place to the College Board/Committees regarding budgets to ensure that the budget is monitored, reviewed and that variances to the budget are being appropriately explained.
- Obtaining and reviewing the management accounts and the current budgets for the College to ensure that the College is performing appropriately against its budget.

Conclusion

Overall conclusion

Overall Conclusion: Substantial

Following our review, we are able to provide the College with a substantial level of assurance that their budgetary and financial reporting arrangements in place are robust and embedded throughout the College. This is further highlighted as we have raised a number of good practice points. However, we have raised 2 recommendations for improvement surrounding the results of our questionnaire issued to Budget Holders. Please see Section 3: Detailed Recommendations for further information.

Summary of recommendations

Grading of recommendations

	High	Medium	Low	Total
Budgeting & Financial Reporting	0	1	1	1

As can be seen from the table above, no recommendations have been raised.

Areas of good practice

The following is a list of areas where the College is operating effectively and following good practice.

1.	Cash flow is appropriately monitored within the College. This is monitored throughout the month by the finance department and through the monthly return to the SFC. The Assistant Principal: Finance reports the cash position and highlights the potential cash increase/decrease over the year to the Finance and General Purposes Committee.
2.	The College prepare monthly management accounts which effectively illustrates the College's performance against budgeted expectations. The narrative provided includes a high-level summary of the variances for the period and the following reports are included: <ul style="list-style-type: none">➤ Income and Expenditure Account;➤ Cashflow Forecast;➤ Debtors Analysis; and➤ Creditors Analysis.
3.	The College Board and Senior Management receive sufficient reporting of performance against budget and against plans throughout the year to enable informed decision making.
4.	The College ensure that their income is maximised where they specifically have a Business Development Department that is charged with the responsibility of assisting in the achievement of the College's Strategic Ambition, which is for the College to provide innovative, life-changing learning opportunities that prepare the College's students for global citizenship.
5.	The College's Financial Procedures provide a clear overview of the budget setting and monitoring arrangements in place.

The following is a list of areas where the College is operating effectively and following good practice.

6.	There are regular comparisons of actual v budget, through the College's management accounts and budget reports. There are adequate explanations for significant deviations from budget and these are discussed through the College's Senior Leadership Team, and Finance and General Purposes Committee.
7.	The Budgeting Process starts annually in April and concludes in June. The process includes Budget Holders, senior members of the Finance Departments, and SLT. Once drafted the budget is presented to the Finance & General Purposes Committee for review and then to the Board for approval.
8.	The Assistant Principal: Finance is the central point of control in the budgeting process with help from the Finance Business Partner. They report to the Vice Principal: Finance and Corporate Services who is the financial advisor to the Principal and the Board.

We include for your reference comparative benchmarking data of the number and ranking of recommendations made for audits of a similar nature in the most recently finished internal audit year.

Budgeting & Financial Reporting

Benchmarking				
	High	Medium	Low	Total
Average number of recommendations in similar audits	0	1	2	3
Number of recommendations at Borders College	0	1	1	2

From the table above it can be seen that the College has a lower number of recommendations compared to those colleges it has been benchmarked against.

3 DETAILED RECOMMENDATIONS

Questionnaire results			
Ref.	Finding and Risk	Grade	Recommendation
1.	<p>We issued a questionnaire to Budget Holders within the College to assess their views on the budget setting and monitoring process. We also sought to assess their views on the training provided and their understanding of their role as a Budget Holder.</p> <p>We received 9 responses to the questionnaire which highlighted the following:</p> <ul style="list-style-type: none"> ➤ Budget Holders rated the training that they received as an average 5.38/10 with two Budget Holders rating this as 1 out of 10. ➤ 1 of the 9 Budget Holders noted that they ‘strongly disagreed’ that they understood their role as a Budget Holder. <p>We spoke with the Assistant Principal: Finance who highlighted that budget meetings are held with Budget Holders that is a 2-way process and training is provided as part of the budget meeting meetings and ongoing meetings throughout the year.</p> <p>There is the risk that Budget Holders do not fully understand their role a Budget Holder and that they have not received sufficient training.</p>	Medium	<p>We recommend that the College provide training to Budget Holders. The training should provide Budget Holders with information on:</p> <ul style="list-style-type: none"> ➤ Their role and responsibilities; ➤ How to understand the financial information; and ➤ The budget setting and monitoring process.

3 DETAILED RECOMMENDATIONS

Management response	Responsibility and implementation date
<p>Our budgeting and financial reporting has improved significantly over the last two cycles, the budget for 20-21 introduced a zero based approach, working with Budget Holders to build the budget, including individual role and FTE equivalent, and narrative to historical revenues and costs. The method resulted in a granular budget, with empowerment and accountability provided to the budget holders not seen in prior iterations.</p> <p>The monthly reporting of finances against the budget now provides more granular and consolidated opportunities for Budget Holders, leading to better financial information for decision making.</p> <p>The same budget process for 22-23, with the same Budget Holders was completed in May-22, with meetings to help non-financial Budget Holders to walk through the numbers and healthy debate to agree before presentation to senior executives.</p> <p>The presentation of financial information in SLT continues to increase Budget Holders understanding of financial performance and we continue to show an open door to help that understanding more if necessary. The method to staff budgeting now provides a baseline of budget information for our SLT staff approval process.</p> <p>We will report these findings to our SLT for open dialog towards the need for training, and ensure induction of new staff have training towards the role responsibilities in budgetary control.</p>	<p><i>Responsible Officer:</i></p> <p>Andrew Kirkness – Assistant Principal - Finance</p> <p><i>Implementation Date:</i></p> <p>30/09/2022</p>

3 DETAILED RECOMMENDATIONS

Budget Reporting and Monitoring			
Ref.	Finding and Risk	Grade	Recommendation
2.	<p>Budget Holders should have live access to their budget and receive regular updated form the Finance Team.</p> <p>During our review, one Budget Holder noted that they often receive figures late by the Finance Team and often have to chase them up.</p> <p>We also found that Budget Holders do not review and monitor their budget live throughout the period.</p> <p>We also found that the frequency of meetings held with Budget Holders is inconsistent.</p> <p>There is the risk that Budget Holders do not receive regular reports regarding their budget.</p>	Low	<p>We recommend that the College speak with Budget Holders to highlight the reporting arrangements in place for their budgets. We also recommend that the College look to implement a meeting cycle with Budget Holders.</p>

3 DETAILED RECOMMENDATIONS

Management response	Responsibility and implementation date
<p>Over the last budget cycle it was not clear to SLT members that we would roll Aug & Sept reporting together & together with staff long term sickness we had challenges towards month end accrual and prepayment responsibilities, this resulted in a delay to reporting beyond what maybe expected by Budget Holders. The finance leadership are now experienced to close month-end as quickly as necessary and report meaningful information to budget holders as required.</p> <p>We will develop a reporting cycle for FY22-23.</p>	<p><i>Responsible Officer:</i></p> <p>Alan McClean – Finance Business Partner</p> <p><i>Implementation Date:</i></p> <p>30/09/22</p>

4 AUDIT ARRANGEMENTS

The table below details the actual dates for our fieldwork and the reporting on the audit area under review. The timescales set out below will enable us to present our final report at the next Audit Committee meeting.

Audit stage	Date
Fieldwork start	16 June 2022
Closing meeting	20 June 2022
Draft report issued	8 July 2022*
Receipt of management responses	13 July 2022
Final report issued	29 July 2022**
Audit Committee	29 September 2022
Number of audit days	3

*Issue of draft report was delayed due to W&B staff members annual leave.

**Issue of the final report was delayed due to W&B staff members illness.

5 KEY PERSONNEL

We detail below our staff who undertook the review together with the College staff we spoke to during our review.

Wylie & Bisset LLP			
Partner	Graham Gillespie	Partner	graham.gillespie@wyliebisset.com
Manager	Scott McCready	Internal Audit Manager	scott.mccready@wyliebisset.com
Senior	Siobhan Archibald	Internal Audit Senior	siobhan.archibald@wyliebisset.com
Auditor	Calum Montgomery	Internal Auditor	calum.montgomery@wyliebisset.com

Borders College			
Key Contacts:	Hazel Robertson	Vice Principal (Finance and Corporate Services)	hrobertson@borderscollege.ac.uk
	Andrew Kirkness	Assistant Principal Finance	akirkness@borderscollege.ac.uk
Wylie & Bisset appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and co-operation.			

APPENDICES

For each area of review, we assign a level of assurance in accordance with the following classification:

Assurance	Classification
Strong	Controls satisfactory, no major weaknesses found, no or only minor recommendations identified.
Substantial	Controls largely satisfactory although some weaknesses identified, recommendations for improvement made.
Weak	Controls unsatisfactory and major systems weaknesses identified that require to be addressed immediately.
No	No or very limited controls in place leaving the system open to significant error or abuse, recommendations made require to be implemented immediately.

A GRADING STRUCTURE

For each recommendation, we assign a grading either as High, Medium, or Low priority depending on the degree of risk assessed as outlined below:

Grading	Classification
High	Major weakness that we consider needs to be brought to the attention of the Audit Committee and addressed by Senior Management of the College as a matter of urgency.
Medium	Significant issue or weakness which should be addressed by the College as soon as possible.
Low	Minor issue or weakness reported where management may wish to consider our recommendation.

Purpose of review

The purpose of the review is to ensure that the College has appropriate budgetary and financial controls in place and that these have been embedded throughout the whole College. This will be a review to provide assurance to the Audit Committee that the College's budgetary and financial control arrangements are adequate.

This review forms part of our 2021/22 Internal Audit Annual Plan.

Scope of review

Our objectives for this review are to ensure:

- There is appropriate control over the budgetary process within the College, with an appropriate member of management having ultimate responsibility for the process.
- Deviations from budget are identified and investigated at an early stage.
- The College has a set of comprehensive Financial Regulations to ensure that financial matters are managed professionally.
- Budget holders are adequately trained and receive information regarding their budgets in a timely manner.
- The budget setting process is effectively linked to the operational planning process.
- The College Board and Senior Management receive sufficient reporting of performance against budget and against plans throughout the year to enable informed decision making.

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

Limitation of scope

There is no limitation of scope.

Audit approach

Our approach to the review will be:

- Discussion with relevant management, finance staff and budget holders to establish the budget setting and monitoring arrangements and their involvement in this process. This shall include consideration of the consultations held with budget holders to establish their budget needs for the forthcoming year.
- Evaluate the budget setting and monitoring arrangements in place to confirm their adequacy and whether they comply with current guidance and good practice. We shall consider the budget setting process to ensure that any assumptions made are justifiable and based on sound rationale. We shall assess whether the budgeting arrangements and procedures are flexible and can react to any unforeseen risk factors.
- We shall establish and evaluate the process for any in year changes and/or re-forecasting of the budget to ensure that these are subject to the same controls as the setting of the original budget.
- Interviews with a sample of budget holders to establish their involvement with the budget setting, re-forecasting, and monitoring process.
- Review of the Financial Regulations and policies and procedures in place in relation to budgeting to confirm that these are complete, appropriately reviewed, and comply with good practice.
- Appraisal of the adequacy of information and financial reporting provided to Senior/Executive management and the Board/Committees for decision making. We shall also consider the timeliness and accuracy of the information presented.

Potential key risks

The potential key risks associated with the area under review are:

- There may be no central point of control for the budgetary process within the College.
- The College does not effectively monitor deviations between budgeted and actual income.
- The College may not comply with financial regulations and may not consider funding guidelines.
- Budget holders are inadequately trained and do not receive information regarding their budgets in a timely manner, resulting in an increased risk of bad decision making.
- The budget setting process may not effectively link to the operational planning process.
- The Board and Senior Management may not be provided with sufficient reporting of performance against budget and against plans throughout the year.