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AUDIT COMMITTEE REPORT

Subject: Internal Audit Assignment – Budgetary and Financial Control	**Purpose:** **For Approval** ☒ **For Discussion** ☐ **For Information** ☐
Prepared by: Peter D Smith, Vice Principal – Finance and Corporate Services	**Date:** 09 May 2018

Purpose: To consider the findings of the internal audit assignment on the College's arrangements for Budgetary and Financial Control and approve the management responses and any further actions.

Linked to Strategic Goal 5: Build Sustainability.

Executive Summary:
Attached is the Internal Auditor's report on the review of the College's Budgetary and Financial Control arrangements. The report concludes that: -

"*Through our review we can conclude that the College has strong controls in place in relation to its budgetary and financial control process. We are satisfied that there is appropriate monitoring of budgets and performance to ensure that any issues are highlighted and addressed at an early stage.*"

There is one low-level recommendation as a result of this audit and the management response to this is included in the report.

Nine areas of good practice are also identified in the report.

Recommendation: Committee consider and approve the findings of the report.

Previous Committee Approvals: n/a

For publication ☒	**For publication with redactions** ☐	**Not for publication** ☐

Wylie+Bisset
Chartered Accountants, Business & Tax Advisers

Borders College

Internal Audit 2017-18

Budgetary & Financial Controls
April 2018

Overall Conclusion
Strong

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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.

1 EXECUTIVE SUMMARY

Overview

Purpose of Review

The purpose of this assignment was to ensure that the College has appropriate budgetary and financial controls in place and that these have been embedded throughout the College.

This assignment is part of the agreed 2017/18 Annual Internal Audit Plan for the College.

Scope of Review

Our objectives for this review were to ensure:

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

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

1 EXECUTIVE SUMMARY

Limitation of Scope

There was no limitation of scope.

Background

The College's Financial Regulations state that the Vice Principal – Finance & Corporate Services has overall responsibility for budget preparation, budget monitoring and financial controls. The Vice Principal – Finance & Corporate Services is supported by the Head of Finance & Procurement, who joined the College in January 2018, and the Finance Department. At the time of our fieldwork in April 2018, the March 2018 management accounts showed that the College are currently performing better than budget for the academic year with a surplus of £423k against a budgeted deficit of £158k. The reason for the variance is due to lower than expected staff costs within the Business Development Unit and the Care & Services Faculty and premises related costs such as electricity and hire of premises being lower than expected. The Head of Finance & Procurement also noted that there have been several administration and support staff who have left the College but have not been directly replaced. We note that the College are forecasting a balanced outcome against the budget for academic year.

The College currently has 14 budget holders who all receive training prior to their commencement in the role which enables them carry out their role. These training sessions are delivered by the Head of Finance & Procurement. Additionally, when joining the College in January 2018, the Head of Finance & Procurement provided additional training where required to budget holders as part of the first quarterly meeting he held with budget holders.

Following the publication of the indicative funding from the SFC in February, the College will then begin to prepare the draft budget with the aim to have this approved by June each year. The process begins each year when budget holders meet with the Head of Finance & Procurement to discuss and prepare their budget. The figures are based on the prior year's figures and takes into account any large areas of spend or income the budget holder is expecting and then discussed in greater detail. Once finalised, a draft budget for the College is prepared by the Head of Finance & Procurement in conjunction with the Vice Principal Finance & Corporate Services before being presented to the Senior Leadership Team for review. Following review, the draft budget is presented to the Finance & General Purposes Committee. The first draft of the 2018/19 budget was presented to the Finance & General Purposes Committee on the 19th April 2018.

The Head of Finance & Procurement is the main point of contact for budget holders and quarterly meetings are held with each budget holder. These meetings provide the opportunity for budgeting queries to be discussed and instances of overspend to be discussed.

1 EXECUTIVE SUMMARY

The Head of Finance & Procurement produces detailed monthly management accounts showing the comparison of actual v budget figures for income and expenditure, balance sheet figures, forecasts and a commentary of the information presented. The monthly management accounts are presented to the Senior Leadership Team monthly and are reported to the Finance & General Purposes Committee quarterly.

Work Undertaken

Our work for this review included the following:

- Discussion with relevant management, finance staff and budget holders to establish the budgetary and financial control arrangements and their involvement in this process.
- Evaluating the budgetary arrangements in place to confirm their adequacy and whether they comply with current guidance and good practice.
- Reviewing documentation to confirm that policies and procedures are in place and comply with good practice.
- Appraising the adequacy of information provided to management, the Finance & General Purposes Committee and the Regional Board for decision making.

Conclusion

Overall Conclusion

Overall Conclusion: Strong
Through our review we can conclude that the College has strong controls in place in relation to its budgetary and financial control process. We are satisfied that there is appropriate monitoring of budgets and performance to ensure that any issues are highlighted and addressed at an early stage.

Summary of Recommendations

Grading of recommendations				
	High	Medium	Low	Total
Budgetary & Financial Controls	0	0	1	1

As can be seen from the above table there were no recommendations made which we have given a grading of high.

Areas of Good Practice

The following is a list of areas where the College is operating effectively and following good practice.	
1.	The College's Financial Regulations & the Financial Procedures Manual provide a clear overview of the budget setting and monitoring arrangements in place.
2.	The Vice Principal - Finance & Corporate Services has overall responsibility for the budgetary process at the College and is supported by the Head of Finance & Procurement and the Finance Team. There is a strong budget setting, approval and monitoring process in place.
3.	The College ensure that performance against budget is monitored effectively and on a regular basis through the College's monthly management accounts, commentaries within the management accounts, SLT meetings and budget reports provided to budget holders.
4.	Budget reports are prepared quarterly, and meetings are held between the Budget Holders and the Head of Finance & Procurement to review the reports.
5.	All budget holders have access to the Colleges Vision software, this provides them read only access to their live budget, spend and any outstanding commitments.
6.	We spoke with a sample of 3 Budget Holders to gain their views on the budgeting process. All 3 reported that they were happy with the overall process and were fully aware of the process. While two are long term budget holders, they noted that they received training while the other budget holder joined the College in January 2018 and received training from the Head of Finance & Procurement. They also noted that the Finance Team are helpful and approachable during the process.

1 EXECUTIVE SUMMARY

The following is a list of areas where the College is operating effectively and following good practice.	
7.	Management accounts are prepared by the College monthly. Through our review of the management accounts and the month end procedures in place we are satisfied that these arrangements are adequate. The College's management accounts are presented to the Senior Leadership Team monthly while they are reported to the Finance & General Purposes Committee at each of their meetings that are held quarterly.
8.	Cashflow is appropriately monitored within the College. This is monitored throughout the month by the Head of Finance & Procurement and through the monthly return to the SFC. The cash position is also reported through the monthly management accounts which are reported to the Senior Leadership Team monthly and quarterly to the Finance & General Purposes Committee.
9.	From our review of the College's budget projections, along with the Regional Outcome Agreement, we are satisfied that the College has clear plans in place to explain how they will achieve their level of budgeted income.

2 BENCHMARKING

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.

Budgetary & Financial Controls

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

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

Financial Procedures Manual			
Ref.	Finding and Risk	Grade	Recommendation
1.	The College has a detailed Financial Procedures Manual in place. The manual documents procedures covering the following areas sales cycle, purchase cycle, bank & cash balances, payroll, fixed assets and financial control. During our review, we found that the Financial Procedures Manual was due to be reviewed in June 2017, however, this has yet to be completed. We note that the College's previous Head of Finance & Procurement had begun to review the document this has yet to be completed. We also note that the procedures within the manual are still relevant although there are areas that require updating such as job titles throughout the document. There is the risk that the Financial Procedures Manual has not been fully reviewed to ensure the procedures are relevant and the information provided is correct.	**Low**	We recommend that the College review and update the Financial Procedures Manual.
Management response			Responsibility and implementation date
Agreed. Review of manual will be completed.			*Responsible Officer:* Head of Finance & Procurement *Implementation Date:* 31 July 2018

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	19 March 2018
Closing meeting	20 April 2018**
Draft report issued	2 May 2018
Receipt of management responses	8 May 2018
Final report issued	9 May 2018
Audit Committee	16 May 2018
Number of audit days	3

**The audit fieldwork was delayed due to the sickness of the Audit Senior and rearranged for the first available date.

5 KEY PERSONNEL

We detail below our staff who will undertake the review together with the College staff we shall require to speak to during our review.

Wylie & Bisset LLP			
Partner	Ross McLauchlan	Partner	ross.mclauchlan@wyliebisset.com
Senior Manager	Stephen Pringle	Senior Internal Audit Manager	stephen.pringle@wyliebisset.com
Auditor	Scott McCready	Internal Audit Senior	scott.mccready@wyliebisset.com

Borders College			
Key Contact	Pete Smith	Vice Principal - Finance & Corporate Services	psmit@borderscollege.ac.uk
Key Contact	Pravin Chandy	Head of Finance & Procurement	pchandy@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

A GRADING STRUCTURE

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

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Scope of Review

Our objectives for this review are to ensure:

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- There is appropriate control of the budgetary process within the College, with an appropriate member of management has ultimate responsibility for the process.

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 budgetary and financial control arrangements and their involvement in this process.
- Evaluating these arrangements to confirm their adequacy and whether they comply with current guidance and good practice.
- Review of documentation to confirm that policies and procedures are in place and that current arrangements comply with good practice.
- Appraisal of the adequacy of information provided to senior management for decision making.
- An overall review of the internal control environment to ensure all relevant controls are evident and being complied with.

Potential Key Risks

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

- The Board/Senior Management may not be provided with sufficient reporting of performance against budget and against plans throughout the year.
- The budget setting process may not effectively link to the operational planning process.
- 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.

B ASSIGNMENT PLAN

- The College may not comply with financial regulations and may not consider funding guidelines.
- The College does not effectively monitor deviations between budgeted and actual income.
- There may be no central point of control for the budgetary process within the College.