

AUDIT COMMITTEE REPORT

Subject: Internal Audit Assignment – Commercial Income	Purpose: For Approval <input checked="" type="checkbox"/> For Discussion <input type="checkbox"/> For Information <input type="checkbox"/>	
Prepared by: Hazel Robertson, Vice Principal – Finance and Corporate Services	Date: 20 January 2020	
Purpose: To present the findings of Commercial Income audit.		
Linked to Strategic Goal 3: Provide a high quality College experience.		
Executive Summary: The attached report details the work carried out by the College's internal audit service in reviewing the management of commercial income. The report confirms a strong overall conclusion with one low level recommendation made.		
Recommendation: Committee consider the findings of the report and approve the auditor's findings.		
Previous Committee Approvals: n/a		
For publication <input checked="" type="checkbox"/>	For publication with redactions <input type="checkbox"/>	Not for publication <input type="checkbox"/>

Borders College

Internal Audit 2019-20

Commercial Income
January 2020

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 the 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 this assignment was to review the methods and structure in place for the management of commercial income and consider whether the College is achieving the best value from its commercial income.

This assignment was agreed as part of the 2019/20 Internal Audit Plan.

Scope of review

Our objectives for this review were to ensure:

- The management structure for commercial income within the College is sufficient and allows for commercial income to be maximised.
- The College are maximising the methods available to them in relation to commercial income.
- Levels of Commercial Income are monitored on a regular basis throughout the financial year by the College.
- The Board and College Senior Management receive sufficient reporting of performance against budget and against plans throughout the year to enable informed decision making, with actual versus budget reports used to control future decisions.
- The College is achieving value for money from its commercial income.

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

The College's Strategic Plan for 2016/20 outlines 2 specific goals for commercial income:

- Goal 4: Growing our business includes the aim to build the College's commercial portfolio; and
- Goal 5: Build sustainability includes the aim to increase commercial income.

The vast majority of commercial income within the College is managed by the Business Development Unit (BDU). The Business Development Unit is headed up by the Director of Business Development. At the time of our audit, December 2019, the Director of Business Development reports into the Vice Principal: Finance & Corporate Services. However, from January 2020 the Director of Business Development will report into the Principal. The Business Development Unit offers a wide range of work-based qualifications, short course provision and community programmes.

The Business Development Unit consists of the following staff members:

- Director of Business Development;
- 3 Managers:
 - The Vocational Manager, who is responsible for the delivery and development of all work-based learning;
 - The Vocational Manager manages 1 Team Leader and 24 Assessors.
 - The Contracts Manager, who is responsible for ensuring that contract work is adhered to and that the College are meeting the outputs of the contract;
 - The Contracts Manager manages 1 Business Skills Advisor, 2 Training Consultants/Assessors and 3 Trainers.
 - The Business Skills Manager, who is responsible for other areas such as short course provision, Continuing Professional Development, Flexible Workforce Development Fund.
 - The Business Skills Manager manages 1 Business Skills Coordinator, 8 Business Skills Advisors and 27 Trainers/Lecturers.

1 EXECUTIVE SUMMARY

The College has 7 types of commercial income:

- Flexible Workforce Development Fund;
- Other grants;
- Evening class income certificate;
- Evening class income leisure;
- Training & consultancy non full cost recovery;
- Training & consultancy full cost recovery; and
- Training Agency Income.

The BDU and the College have set a target of 20% mark up on costs for commercial income courses. The College has a standard costing form that is used to ensure all courses are fully costed and provide a return to the College. The BDU can offer discounts to clients as part of a long term strategy to develop an area or encourage future business with the client.

Performance & Value

For 2018/19, the BDU's provided a better than budgeted performance:

	Annual target 2018/19	Actual 2018/19	Variance
Candidates	1,413	1,719	306
Credits	2,500	2,552	52
Notional credit income	£645,129	£658,539	£13,410
Cash income	£747,053	£753,478	£6,425
Expenditure	£1,067,296	£910,005	(£157,291)
Surplus	£324,886	£502,012	£177,126

The table above highlights that the BDU generated a surplus of £502,012 that was £177,126 greater than budgeted by the College. The surplus arose due to expenditure being lower than anticipated and the BDU providing 306 more candidates than expected. As a result, the BDU provided a surplus of £292.04 per candidate.

The College actively monitor the performance of the BDU with the Director of Business Development meeting with the Vice Principal: Finance & Corporate Services (Principal from January 2020) weekly to review performance. The Director of Business Development also prepares a quarterly report on the performance of the BDU to the Finance & General Purposes Committee. The November 2019 report highlighted that the BDU is slightly below surplus target to October 2019 of £113,792 by £4,955. However, the report highlights that the BDU fully expect to recover and meet the target based on work that has been scheduled.

Work Undertaken

Our work for this review included the following:

- Discussions with the Vice Principal: Finance & Corporate Services, the Director of Business Development and two Assistant Principals regarding the current arrangements in place for commercial income at the College ensuring these are fit for purpose.
- Reviewing the types of commercial income received by the College ensuring all avenues are being utilised.
- Reviewing the College's Strategic Plan to ensure commercial income is being fully considered.
- Reviewing monitoring and reporting arrangements in place regarding commercial income.
- Reviewing the performance of the Business Development Unit to ensure value for money is being achieved.

Conclusion

Overall conclusion

Overall Conclusion: Strong

We can provide a strong level of assurance that the methods and structure in place for the management of commercial income within the College is sufficient and helping the College achieve best value from its commercial income.

Summary of recommendations

Grading of recommendations

	High	Medium	Low	Total
Commercial Income	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 has a robust management structure in place to ensure that commercial income is maximised. This is led by the Business Development Unit. Commercial income is also raised within the faculties, who work together and with the BDU to ensure all potential income streams are explored.
2.	The College are maximising the commercial income methods available. Current methods implemented by the College include Flexible Workforce Development Fund (FWDF), evening class income, training & consultancy courses and training agency income. For 2019/20 the BDU exceed its budgeted surplus by £177,126 with a total surplus of £502,012.
3.	<p>The BDU has commercial income targets set annually through discussions with the Vice Principal: Finance & Corporate Services and the Director of Business Development. These targets are then monitored throughout the year through:</p> <ul style="list-style-type: none">➤ Weekly 1 to 1 meeting between the Director of Business Development and the Vice Principal: Finance & Corporate Services;➤ Discussions at the Senior Leadership Team meetings; and➤ Monthly meetings between the Director of Business Development and the Business Development Managers.

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

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|----|--|
| 4. | <p>The BDU actively seek to drive commercial income and ensure this is sustainable. The BDU does this through various methods such as:</p> <ul style="list-style-type: none">➤ Continually seeking new business;➤ Continually reviewing potential new funding schemes such as the Flexible Workforce Development Fund;➤ Offering new business to existing clients; and➤ Where a course has been provided to a client, the BDU review the course to assess if this is suitable for other client and seek to arrange discussions with the relevant client on the courses available. |
| 5. | <p>The Finance & General Purposes committee receive detailed quarterly reports on the performance of the Business Development Unit (BDU). The purpose of the reports is to update the Committee on the progress of the BDU in relation to budget performance and planned activity. The November 2019 report highlights that the BDU currently has a year to date surplus of £108,837 against a target of £113,792. This is £4,955 below target, however, the report highlights that the BDU believe they meet their yearly target of a surplus of £339,249.</p> |

2 DETAILED RECOMMENDATIONS

Portfolios Commercial Income Target			
Ref.	Finding and Risk	Grade	Recommendation
1.	<p>We spoke with two Assistant Principals during our review. It was noted that the Assistant Principals can arrange commercial courses and are responsible for bringing in commercial income where possible.</p> <p>During our discussions, it was highlighted by one of the Assistant Principals that they do not have an annual target for commercial income and that they believe that this would help focus them and their team to drive commercial income within their faculty.</p> <p>There is the risk that faculties do not strive to achieve high levels of commercial income.</p>	Low	We recommend that the College set commercial income targets for all faculties and that is monitored and reported on throughout the year.
Management response			Responsibility and implementation date
<p>We do set budgets for commercial income however these tend to be based on previous year performance rather than stretch targets for curriculum areas to achieve. For the 2020-21 budget setting round we will have specific discussions in relation to income and expenditure budgets for commercial activity within the curriculum, ensuring that the net contribution is clearly understood and agreed.</p>			<p><i>Responsible Officer:</i> Finance Business Partner</p> <p><i>Implementation Date:</i> June 2020</p>

3 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	9 December 2019
Closing meeting	10 December 2019
Draft report issued	6 January 2020
Receipt of management responses	15 January 2020
Final report issued	16 January 2020
Audit Committee	6 February 2020
Number of audit days	3

4 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	Ross McLauchlan	Partner	ross.mclauchlan@wyliebisset.com
Senior Manager	Stephen Pringle	Senior Internal Audit Manager	stephen.pringle@wyliebisset.com
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Borders College

Key Contact	Deirdre McKendry	Director of Business Development	dmcke@borderscollege.ac.uk
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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.

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- The College is achieving value for money from its commercial income.

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:

- Discussions with key personnel to establish the current arrangements in place for Commercial Income.
- A review of the commercial income methods used by the College to ensure all avenues of commercial are being utilised.
- Review of the any policies and procedures to ensure that these are adequate and comply with good practice.
- A review of the methods used to monitor commercial income performance within the College.
- Consideration of Board and Senior Management Reporting.
- An analysis of the College's commercial income to ensure value for money is being achieved.

Potential key risks

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

- The management structure for commercial income within the College is not sufficient and does not allow for commercial income to be maximised.
- The College are not maximising the methods available to them in relation to commercial income.
- Ineffective monitoring of income levels may results in budgeted target not being achieved, or re-forecasting not taking place where appropriate.
- Management reporting of performance against budget and against plans throughout the year may not be robust, and inappropriate decisions

B ASSIGNMENT PLAN

Borders College
Commercial Income

may be made.

- The College is not achieving value for money from its commercial income.