

Board of Management Audit Committee

Date of Meeting	Wednesday 14 September 2015
Paper No.	AC1-B
Agenda Item	5
Subject of Paper	Committee Annual Report 2015-16
FOISA Status	Disclosable
Primary Contact	Paul Clark, College Secretary/Planning
Date of production	30 August 2015
Action	For Approval

1. Recommendations

1. To review the Committee Annual Report 2015-16
2. To approve the report (for noting by the Board) subject to any agreed changes.

2. Purpose of report

2.1 To provide the Committee with a high-level review of the activities of the Committee throughout 2015-16 within the framework of the Committee's Terms of Reference.

3. Context

3.1 In May 2014 the Committee agreed to a recommendation from the Internal Auditor to prepare "an annual report...for each sub-committee and that this is used as the basis for the preparation of the annual report for the full Board" (Ref. paper AC4-F, May 2014: "Internal Audit Report - Risk Management and Governance").

3.2 Referencing the Committee Terms of Reference, the summary schedule of work of the Committee for 2015-16, and the considerations and discussions undertaken by the Committee through the session, the attached report provides a summary report of the Committee's activities.

3.3 The benefits of such a review include the following:

- It provides a reference for progress and achievement, and an accessible update on the Committee's recent and current areas of focus, within the parameters of the Committee's areas of responsibilities. This is of value to new Committee members, other Board members, and other stakeholders.
- It provides a sound basis for the development of a College Annual Report, ensuring a robust governance framework and perspective for reportage.
- It reflects good governance practice.
- It facilitates reflection and performance improvement, thereby supporting the College's Strategic Aim 5. "With a high performance focus, be the best we can be in the way we operate and work together".

4. Impact and implications

4.1 The review process comprises a thorough review of the Committees activities in the previous academic session, informing strategic direction, and facilitating development and improvement.

4.2 It will provide further reassurance to the Board and its stakeholders, including the Regional Board, that the City of Glasgow College systems of governance review are robust, and delivered to a high standard.

Appendices:

Appendix 1: Audit Committee Annual Report 2015-16.

Audit Committee

Annual Report 2015-16

AUDIT COMMITTEE

CONVENER: Colin McMurray

VICE CONVENER: Charlie Kaur

MEMBERS: George Black, Frances McKinlay, Graham Mitchell, Eric Tottman-Trayner

Annual Report 2015-16

Introduction

The Board of Management is accountable for the stewardship of funds under its control, and is therefore responsible for:

- Safeguarding assets and ensuring the regularity of transactions by establishing adequate systems of internal control;
- Maintaining proper accounting records;
- Preparing financial statements which show a true and fair view and comply with relevant accounting standards;
- Taking reasonable steps for the prevention and detection of fraud and other irregularities; and
- Managing its affairs to secure the economic, efficient and effective use of resources

The Audit Committee has the unique role among all Board and College committees and other fora, of maintaining a degree of independent overview of the effectiveness of financial and other internal control systems and functions. This relates to all aspects of College activity and the Committee's priority is to ensure that the College's systems and processes operate efficiently, and economically, as well as effectively.

To assist the Committee in this task, the Committee has responsibility for selecting and recommending to the Board both an Internal and an External Auditor. The Committee plans and oversees the planning and operation of the auditors' work, monitoring its effectiveness, and receives their reports on the agreed scope of their reviews. These may cover any aspect of College operation, and is designed to provide the Board of Management, the Principal and other managers with assurance on the adequacy of the College's arrangements for:

- Risk Management
- Corporate Governance, and
- Internal Control

The Committee has a specific responsibility to consider the College’s annual financial statements, after review by the Finance Committee and prior to submission to the Board. Any changes to accounting policy, major decision matters, or significant audit adjustments, are closely scrutinised by the Committee. Compliance with accounting standards, and the Funding Council’s Financial Memorandum, is also a priority. Where any significant losses are identified these would be fully investigated and reported through the appropriate channels by the Committee.

In 2015-16 the College’s External Auditors were Scott-Moncreiff, and the Internal Auditors were BDO LLP.

Review of 2015-16

Administrative Matters

Membership of the Committee totalled 6 members, one more than in the previous 2 years. Committee attendance over the past two academic sessions has been as follows:

Audit Committee Attendance				
Year	No. of Meetings	Total Possible Attendances	Total Actual Attendances	Percentage Attendance
2013-14	4	20	12	60%
2014-15	4	20	11	55%
2015-16	4	24	12	50%

Attendance levels were noted by the Board of Management as part of the Board evaluation exercise in June 2016, and the reasons for the low attendance of two members in particular were understood.

Following the conclusion of the Sector Board “transition period” at the conclusion of which some long-standing Board members left the Board, the Audit Committee lost its experienced Vice Convener C Kaur. The Committee recognised the significant contribution made by Ms Kaur over several years of service and noted the loss of experience and skills this departure represented.

Internal Audit

The College’s Internal Auditors are BDO LLP, who were contracted to fulfil this role until July 2016. The role of the internal auditor is to provide an independent, objective assurance and consulting activity designed to add value and improve the College’s operations. The auditor’s approach is to help the College accomplish its

objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The Internal Auditors undertook regular reviews of progress made against the audit plan for 2015-16, and presented these to the Committee.

The table below sets out the Internal Audit reviews conducted in 2015-16, together with the number of recommendations categorised under high, medium, or low priority:

Internal Audit Report and Recommendations	High	Medium	Low
Health and Safety Governance	0	2	3
Student Representation	0	0	2
SUMs Audit	0	1	0
Internal Communications	0	5	0
Green Travel	0	3	0
New Campus Project – post migration	0	0	1
Libraries and Learning Technologies	0	4	1
Overall Financial Controls	0	0	2
Admissions and Enrolments	0	0	2
Student Fees	0	0	3
Academic Growth Planning	0	0	1
Treasury Management	tbc		
Building international and commercial capability and capacity	tbc		
Follow Up	tbc		

Ref: Internal Audit Progress Report 25-5-16

Due to the schedule of the Internal Audit plan, the Internal Audit Annual Report will be considered at the first meeting of the Audit Committee in 2016-17.

External Audit

The College's External Auditors are Scott-Moncrieff, having been appointed by the Auditor General for Scotland for the five year period 2011-12 to 2015-16. In summary, the responsibilities of the College's external auditors are:

- To provide an opinion on the financial statements of the College, including an opinion on the regularity of transactions
- To review and report on the College's corporate governance arrangements as they relate to its systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption and financial position
- To review and report, as far as required by the Auditor General for Scotland, on aspects of the College's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources

The External Auditor provided a report on the 2014-15 audit covering the 16-month period to 31 July 2015, providing an unqualified audit opinion on the financial statements, and on the regularity of transactions, as required under the Public Finance and Accountability (Scotland) Act 2000. The scope of the audit was detailed in the External Audit Strategy & Plan, as presented to the Audit Committee in May 2015.

The report included two recommendations (one of which was carried forward from the previous report) with management action plan points, all of which were accepted.

Recommendations:

- To ensure full compliance with SFC guidance on severance arrangements, and remind the Board of Management of related governance arrangements (Grade 3 – Moderate Risk Exposure)
- Implement Succession Plan for senior managers and consider Finance team staff resource levels (ELT) (Grade 2 – limited Risk Exposure)

The SFC guidance for severance arrangements was presented to the Committee at its meeting in March 2016, then to the subsequent PRNC.

The External Audit Strategy and Plan for 2015-16 was considered and agreed by the Committee, with the key audit issues highlighted - in particular fixed assets, FRS 102 restatement, completeness and occurrence of income and management override.

The EA Annual Report for 2015-16 with key findings, opinions, and recommendations will follow later in 2016, for inclusion in the full College Annual Report and Financial Statements for 2015-16.

Other Audit Committee Activities

In addition to the work of the Internal and External Auditors, the Committee considered a range of other matters including:

- Audit Committee Annual Report 2014-15
- Committee Programme of Work 2015-16
- Board and Board Committee Schedules 2015-16
- Review of Audit Committee Terms of Reference
- College Annual Report 2014-15 including Financial Statements
- Annual Report on SFC FM Delegated Limits & Expenditure Risk Management
- SFC Guidance for Severance Schemes and Settlement Agreements
- Remuneration Report
- Board of Management Dashboard
- Accounting Policies Update
- Anti Bribery and Corruption Policy Update
- Fee Waiver Policy Update
- Fraud Prevention Policy Update
- Financial Regulations Update
- Strategic Risk Review (see below)

Risk Management

The College Risk Management strategy is embodied in the following Documents:

- Risk Management Policy
- Risk Management Procedure
- Risk Management Guidance
- Risk Register
- Risk Matrix
- Risk Management Action Plans (currently 21)

The College Risk Management Policy outlines its approach to risk management and internal control, and the roles of the Board of Management and senior management, while the Risk Management Procedure outlines how this is delivered.

The Committee received a Risk Management Maturity Assessment from the Internal Auditors in 2014-15, which reviewed risk management at the College under the five main areas of: Risk Governance, Risk Identification and Assessment, Risk Mitigation and Treatment, Reporting and Review and Continuous Improvement. While some enhancements to the current approach were suggested, the report indicated that risk management at the College “demonstrates high performance in comparison to with comparative organisations”. (Paper 150527 AC4-C).

One suggested improvement from this Assessment had been the adoption of a 5x5 as opposed to the current 3x3 likelihood vs Impact Risk Scoring matrix. In 2016, the Audit Committee piloted this scoring system with some Finance Risks, and approved the extension of this scoring approach across the full College Risk Register in 2016-17.

A further strategic risk was added to the College Risk Register in 2015-16: Risk 21 “Failure of the College's Duty of Care to Students”. This Risk was scored low (Green).

The Committee received regular reports from the senior management Risk Management reviews in 2015-16. All significant changes to risk assessment or management were highlighted and discussed by the Committee, via the individual Risk Management Action Plans, as well as the College Risk Register and Matrix.

The two highest scoring risks which were consistently identified through the session due to high impact and likelihood, were those associated with a failure to agree a transition plan for the delivery of 210,000w SUMS by the College, (now referred to as 180,000+ Credits) as well as the continuing financial pressure placed upon the College by funding restrictions to the sector.

Following the adoption of a 5x5 risk score matrix, the previously high-scoring “Red” Risk 15: “Failure to achieve operating surplus via control of costs and achievement of income targets” was rescored to an “Amber” risk.

However, the threat of industrial action emerged in 2015-16, and the slightly re-phrased strategic Risk 14: Failure to manage the impact of Industrial Action” was elevated to a high scoring “Red” risk.

The table below summarises the key Strategic Risks which the College managed, and which the Audit Committee monitored throughout 2015-16: (as at June 2016):

Strategic Theme	Risk Name	RAG Status
Students	1. Failure to support student success	A
	2. Failure to establish optimal pedagogical model	A
	3. Failure to achieve good student outcome/progression levels	A
	21. Failure of the College's Duty of Care to Students	G
Growth and Development	4. Failure to realise planned benefits of Regionalisation	A
	5. Failure to achieve New Campus objectives	G
	6. Negative impact upon College reputation	A
	7. Failure to achieve improved business development performance with stakeholders	A
	8. Failure to achieve improved performance	G
	9. Failure to recruit, retain, and develop suitable staff	G
Processes and Performance	10. Negative impact of statutory compliance failure	G
	11. Failure of Corporate Governance	G
	12. Failure of Business Continuity	A
	13. Failure to manage performance	G
	14. Failure to manage Industrial Relations	R
Finance	15. Failure to achieve operating surplus via control of costs and achievement of income targets.	A
	16. Failure to maximise income via diversification	A
	17. Negative impact of funding methodology within Glasgow Region	A
	18. Failure to agree with SFC a transition plan to deliver 210,000 wSums (180,000+ Credits)	R
	19. Impact of ONS reclassification of the status of colleges	A
	20. Failure to obtain funds from College Foundation	G

Closed Session

In recognition of the need for furtherance of good governance practice, the Committee instigated a yearly meeting with the External and Internal Auditors in a private session where management is not present. This approach was agreed at the Audit Committee meeting on 2 March 2016. This private session provided the Audit Committee with an opportunity to ask questions on matters that might not have been specifically addressed as part of the governance of Audit, and is designed to facilitate the provision of candid, often confidential, comments to the Audit Committee on such matters from the Internal and External Auditors.

Guidance on conducting the closed session was prepared with sample questions, and provided to Committee members. The Areas for discussion were

Attitudes – management’s attitude toward financial reporting, internal controls and the Internal and External Auditors.

Resources – the adequacy of people and other resources in the financial management area and the internal audit function.

Relationships – the nature of the relationship between the External Auditor, management and the Internal Auditor.

Other issues – other issues of concern to the Audit Committee or the Auditor.

The meeting was conducted to the satisfaction of the Committee, with a detailed note taken of the responses of the Internal and External Auditors to questions posed by Committee Members. The meeting note was retained by the College Secretary.

APPENDIX 1: COMMITTEE TERMS OF REFERENCE (Approved June 2016)

1. To review the processes for ensuring the effectiveness of the financial and other internal control systems.
2. To advise the Board on the criteria for the selection and appointment of the internal auditor, and to select and recommend the appointment of the provider of an internal audit service.
3. To review the scope and effectiveness of internal audit's work including planning and operation of the work and the internal audit annual report, and to hold an annual closed meeting.
4. To ensure that the College has systems and procedures to promote economy, efficiency and effectiveness, including where appropriate the identification of specific value for money studies.
5. To advise the Board of the process for the appointment of the external auditor, who is currently appointed by the Auditor General for Scotland, for his/her remuneration.
6. To agree the scope of the external auditor's work and determine any non-audit services to be provided.
7. To consider the College's annual financial statements after review by the Finance Committee and prior to submission to the Board focusing in particular on any changes in accounting policy, major judgemental areas, significant audit adjustments, the going concern assumption and compliance with accounting standards and the Scottish Funding Council's Financial Memorandum.
8. To review the external auditor's Management Letter and management's response, and having direct access to the external auditor, including an annual closed meeting.
9. To review relevant reports from the Scottish Government, Auditor General for Scotland, Scottish Funding Council and other organisations.
10. To monitor the performance and effectiveness of external and internal audit.
11. To monitor and review the College's Strategic Risks and Risk Management Strategy, and review Risk Management Action Plans as appropriate, to ensure that the College's approach to managing the risks is appropriate and adequate.
12. To maintain oversight of whistleblowing, anti-fraud, anti-money-laundering, and anti-bribery policies.

13. To ensure that all significant losses, including those in excess of the delegated limits set out in Financial Memorandum, have been properly investigated, and that the internal and external auditors and the Scottish Funding Council have been fully informed of all such losses.
14. To ensure the committee operates in compliance with the terms of the Scottish Public Finance Manual and the Scottish Funding Councils' Financial Memorandum.
15. The Committee will report annually to the full Board of Management.
16. Undertake a self-evaluation exercise annually to ensure that the Audit Committee complies with best practice in relation to governance and that the internal and external audit service is satisfactory.