

Audit Committee

Date of Meeting	Wednesday 13 September 2017
Paper No.	Ac1-b
Agenda Item	5
Subject of Paper	Committee Annual Report 2016-17
FOISA Status	Disclosable
Primary Contact	Paul Clark, College Secretary/Planning
Date of production	24 August 2017
Action	For Approval

1. Recommendations

1. To review the Committee Annual Report 2016-17
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 and the Board with a high-level review of the activities of the Committee throughout 2016-17 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 2016-17, 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, vigilance, effectiveness and performance improvement, thereby supporting the College's Strategic Aims 5 and 6 - "To deliver excellence in performance", and "To be efficient, effective, innovating, and vigilant".¹

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.

¹ City of Glasgow College Strategic Plan 2017-25

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 2016-17.



CITY OF GLASGOW
COLLEGE

Board of Management
Audit Committee

Annual Report 2016-17

Let Learning Flourish

AUDIT COMMITTEE

CONVENER: Colin McMurray

VICE CONVENER: Graham Mitchell

MEMBERS: George Black, Joseph Hughes, Anne Peters, Eric Tottman-Trayner

Annual Report 2016-17

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 2016-17 the College's External Auditors were Scott-Moncreiff. The College's Internal Auditors were BDO LLP to July 2017, and, following a tender process Henderson Loggie were appointed Internal Auditors from August 2017.

Review of 2016-17

Administrative Matters

Membership of the Committee totalled 7 members, one more than in 2015-16 and two more than the previous 2 years. Committee attendance since 2013-14 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%
2016-17	4	23	14	61%

Attendance levels, while still lower than other Board Committees, showed an improvement compared to the past three years, and it should be noted that one member's attendance was affected due to health reasons. The attendance level of new members was high.

Following the conclusion of the Sector Board of Management "transition period" in 2015, and the subsequent extension of tenures of some long-standing Board members to July 2016, a number of experienced members left the Board. The Audit Committee lost its experienced Vice Convener C Kaur in June 2016. Membership of the Committee was refreshed, and its skill base enhanced, with the addition of Anne Peters and Joseph Hughes for 2016-17.

Internal Audit

The College's Internal Auditors were BDO LLP, contracted to fulfil this role until July 2016, with the role being undertaken by Henderson Loggie from 1st August 2016 to 31 July 2020. 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 Committee was presented with a full review of the 2015-16 audit work undertaken by BDO, 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	0
Treasury management	0	0	2
International and Commercial Activity	0	0	1
Totals	0	15	17

Ref: Internal Audit Report September 2016

In March 2017, Henderson Loggie provided the Committee with an Audit Needs Assessment (ANA), including a proposed internal Audit Plan covering the period 2016 – 2020. The ANA was prepared following a review of previous internal and external audits and related documents, and in consultation with a number of College managers.

The ANA is based on the College's Risk Register and also on the risk prompt list for higher education institutions issued as a guide by the Higher Education Funding Council for England (HEFCE). The prompt list was compiled by HEFCE from information provided by several institutions that had carried out a full risk identification process. Risks were split into eight categories: reputation; student experience; staffing issues; estates and facilities; financial issues; commercial issues; organisational issues, and information and IT. These categories were supplemented by the auditors' own assessment of the risks faced by the College.

Following identification of the key controls and associated risks the auditors assessed the different areas of risk using the following three criteria:

- Risk Impact
- Risk Likelihood
- Present Controls

In the light of this ANA Henderson Loggie developed and presented a strategic plan to cover the 2016/17 to 2019/20 financial years, under the three main strands of Governance, Financial, and Performance. This plan will be reviewed annually prior to the finalisation of the annual internal audit plan and detailed audit scopes, which will also include consideration of Value for Money and business improvement.

In May 2016, Henderson Loggie presented an Internal Audit progress Report for 2016-17. Due to the schedule of the Internal Audit plan, the Internal Audit Annual Report will be considered at an early meeting of the Audit Committee in session 2017-18, and will be included in the College Annual Report for 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 2016-17 to 2020-21. 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's report was presented to the Committee in November 2016, for the year ended 31 July 2016, and was included in the College's Annual Report 2015-16. The report provided 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.

In terms of financial sustainability, the report stated that:

[“The College's processes over budget management appear to be robust and well embedded. Whilst the financial outlook for the College, and FE sector more generally, continues to be extremely challenging, the College is considered to be financially resilient and in a reasonably strong position.”](#)

Ref: City of Glasgow College Annual Audit Report 2015-16; Scott-Moncreiff Dec 2016

The report included four recommendations (rated 3 – comprising moderate risk) all of which were accepted.

The EA Annual Report for 2016-17 with key findings, opinions, and recommendations will follow later in 2017, for inclusion in the full College Annual Report and Financial Statements for 2016-17.

Other Audit Committee Activities

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

- Internal Audit Service Tender
- Audit Committee Annual Report 2015-16
- Committee Programme of Work 2016-17
- Board and Board Committee Schedules 2015-16
- Review of Audit Committee Terms of Reference
- Audit Scotland Report: Scotland's Colleges 2016
- College Annual Report 2015-16 including Financial Statements
- Development of new Conflict of Interest Policy and Procedure
- Development of new Whistleblowing Policy and Procedure
- Significant revision of the College Risk Management Policy and Procedure
- Audit Needs Assessment (Internal Audit)
- Internal Audit Strategic Plan
- Annual "Closed" Session with Auditors
- Freedom of Information Report
- 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 22)

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 had received a Risk Management Maturity Assessment from the Internal Auditors (BDO) 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. Following a pilot in 2016, this revised matrix was rolled out to the full College Risk Register in session 2016-17, and the Committee reviewed the Colleges Strategic Risks accordingly. The Risk score RAG rating was adjusted as follows: risk score 1 to 5 = Green, 6 to 12 = Amber, and 15 to 25 = Red.

A further strategic risk was added to the College Risk Register in 2016-17: Risk 22 “Negative Impact of Brexit”. This Risk was scored Amber, although the potential to increase to Red was recognised.

The concept of Risk Tolerance was also introduced to all Risk Management documents, and explained in detail within the Risk Management Guidance.

The Committee received regular reports from the regular senior management Risk Management reviews in 2016-17. 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.

The highest scoring risk which was consistently identified through the session due to high impact and likelihood, was associated with “Failure to agree a sustainable level of grant-funded activity within the Region” as well as the continuing financial pressure placed upon the College by funding restrictions to the sector.

However, two significant threats emerged in the course of 2015-16 and became closer to realization in 2016-17, relating to ongoing discussions to achieve national bargaining agreement between the Colleges (via Colleges Scotland) and EIS. The associated risks related to industrial action on the part of teaching staff, and the cost to the College of any agreed settlement.

Towards the end of session 2016-17 EIS initiated strike action, and the cost to the College sector of the emerging settlement became apparent. As a consequence, a number of strategic risks relating to student success, performance, and finance were re-scored by the Committee, resulting in a greater number of risks scored Amber and Red than at any time since the Risk Register was developed in its current form.

The table below summarises the key Strategic Risks which the College managed, and which the Audit Committee monitored throughout 2016-17: (as approved by the Board of Management - June 2017):

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 complete project programme to schedule	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 attract, engage, and retain 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. Negative impact of Industrial Action	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 a sustainable level of grant-funded activity within the Region	R
	19. Impact of ONS reclassification of the status of colleges	A
	20. Failure to obtain funds from College Foundation	G
	22. Negative impact of Brexit	A

Closed Session

In recognition of the need for furtherance of good governance practice in line with the Code of Good Governance 2016, 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 provides 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.

As the scheduled closed session in May 2017, members did not identify any particular items they wished to raise with the auditors. However, it was agreed that it would be more beneficial to hold the meeting once the annual accounts had been completed (November), whereby members could ask questions on the whole course of the financial year.

APPENDIX 1: COMMITTEE TERMS OF REFERENCE (Approved June 2017)

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 their 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.