

Board of Management Audit Committee

Date of Meeting	Wednesday 12 September 2018
Paper No.	AC1-B
Agenda Item	5
Subject of Paper	Committee Annual Report 2017-18
FOISA Status	Disclosable
Primary Contact	Paul Clark, College Secretary/Planning
Date of production	23 August 2018
Action	For Approval

1. Recommendations

1. To review the Committee Annual Report 2017-18
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 2017-18 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 2017-18, 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, performance monitoring, 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 2017-18

AUDIT COMMITTEE

CONVENER: Colin McMurray

VICE CONVENER: Graham Mitchell

MEMBERS: George Black, 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. The Audit Committee maintains oversight of the management of Data Protection, and in the past academic session has particularly focused upon the requirements and duties placed upon the College under the General Data Protection Regulations (GDPR).

In 2017-18 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 2017-18

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
2014-15	4	20	11	55%
2015-16	4	24	12	50%
2016-17	4	23	14	61%
2017-18	4	21	14	67%

Attendance levels, while still lower than some 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.

Internal Audit

The College's Internal Auditors were Henderson Loggie, who have been contracted to undertake this role 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.

In March 2017, Henderson Loggie had 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. This assessment informed the Internal Audit plan which specified audits of particular areas of College activity throughout the period of the plan.

- The Internal Auditors reported on the following areas in the course of 2017-18:

- Planned Maintenance: Assurance level – Satisfactory, with four low priority actions agreed, concerned with potential improvements in the systems operated by GLQ.
- Budgetary Control: Assurance level – Good, no actions recommended.
- IT Network Arrangements/Security: Assurance level – Satisfactory, with three low level recommendations agreed, including development of an operational risk register, and supporting processes and procedures relating to the IT Acceptable Use Policy and Information Security Policies.
- Student Admissions: A business process review was undertaken, and a small number of areas for operational improvement were identified, and discussed at Senior Management Team level.
- Corporate Planning: Assurance level – Satisfactory, with seven low priority actions agreed, and an identified weakness in the timely completion of operational plans across the College.
- Student Welfare: Assurance level – Satisfactory, with three low priority actions agreed. The Committee noted that a short Life Working Group was set up to address any issues in relation to the College's Corporate Care arrangements.
- 2016-17 Student Activity Data: the Committee noted this mandatory review of systems and procedures relevant to the collection and recording of student data. This ensures accuracy when compiling the College student activity data return.
- Teaching Staff Utilisation/Timetabling: the current College approach was compared to best practice, including systems and procedures with the overall level of assurance being satisfactory. Three low priority actions, and two areas requiring improvement were identified.
- Student Engagement/Students' Association: Assurance level – Good. The Committee received an overview of the review of the framework of student engagement structures and activities within the College, including the work of the Students' Association. There were no actions recommended, with improvements already underway.
- Business Development/International Activities: This review covered College activity which is designed to attract non-Scottish Funding Council income, in support of the College's strategic aim of diversification of income sources. This was a wide-ranging review with 9 objectives, concluding with 8 'Satisfactory' levels of assurance and 1 level set at 'Good'. A total of 13 low level recommendations were agreed to improve and enhance existing arrangements.
- Data Protection/Freedom of Information: Assurance level – Satisfactory. Six low level recommendations were agreed. While it was noted that the College did not have an approved Information Security Policy, an interim measure was put in place with a draft Policy to be finalised by the second half of 2018.

The internal Audit Annual Report for 2016-17 was reviewed and it was noted that all work in 2016-17 had assessed systems as either 'Good' or 'Satisfactory'. No significant issues were identified and in general procedures were operating well in the areas selected. A few areas for further strengthening were identified and action plans were agreed to address these issues.

External Audit

The College's External Auditors are Scott-Moncreiff, 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 2017, for the year ended 31 July 2017, and was included in the College's Annual Report 2016-17. 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 has effective arrangements in place for financial planning and monitoring.” and “There is recognition at the College that there are significant challenges ahead to bridge the budget gap and work is underway to identify savings options.”

Ref: City of Glasgow College Annual Audit Report 2015-16; Scott-Moncreiff Nov 1017

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

The EA Annual Report for 2017-18 with key findings, opinions, and recommendations will follow later in 2018, for inclusion in the full College Annual Report and Financial Statements for 2017-18.

Other Audit Committee Activities

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

- **GDPR:**
The Senior Management Team provided assurances to the Audit Committee, at an early stage prior to implementation in May 2018, that the implications of changes to legislation were considered, with appropriate action being taken.

- The Committee reviewed and approved a new Policy - fully revised to comply with the new data protection legislation. With reference to marketing information, College clients were contacted to confirm continuation of information received from CoGC. A dedicated website was created on the College website to publish all relevant Data Protection information, including a new set of Privacy Notices, for students, staff, and Board members.

- Freedom of Information

The Committee received an overview of the Freedom of Information (Scotland) Act 2002 (FOISA) Report 2017-18 which provides information on the nature and volume of requests received in relation to FOISA and Environmental Information (Scotland) Regulations (EIRs). The following points were particularly noted:

- The volume of requests has increased significantly over the last three academic years.
- Complexity of requests continue to increase with a significant amount of in-house legal expertise now being provided.
- The percentage of responses met within the specified 20-day timescale to date is 93 % (a continuing improvement against previous years).

- ESF Project – Repayment Request

The College successfully challenged a request from the Scottish Government for the repayment of historic ESF Project grant funding, during the period 2018-10. While this represented a significant potential loss to the College (£1m+) the Committee received assurances that all necessary work had been undertaken to rectify any identified issues, and the College's appeal was upheld prior to submission of the College Accounts for 2016-17 within an extended deadline.

- Annual Report and Accounts 2016-17

The Committee had oversight of the development and completion of the College Annual Report and Accounts for 2016-17, which included an extended narrative of College successes throughout the session, for publication as the College Annual Review 2016-17. The College's accounts showed an underlying operating surplus position of £534k.

- National Fraud Initiative

Voluntary participation was undertaken by the College.

- Departmental Expenditure Limits

An update on the Departmental Expenditure Limits as stated in the College Financial Regulations for the Year 2016-17 were noted, and specific details of certain expenditure areas relating to public relations, overseas travel, hospitality/entertainment, and external consultancy were discussed. The Committee agreed that the College would completely eliminate all non-compliant procurement expenditure.

- Business Continuity

An external review of Business Continuity Management (BCM) was undertaken at the College during March 2018 by Ashton Resilience for the College's insurers, UMAL. The review looked at the activities and operations of the College, its current recovery capability and the degree to which the BCM has been implemented. The detailed findings and recommendations were reviewed by the Committee.

It was noted that whilst all elements of incident management were graded as 'Good', the Business Recovery Plans, previously developed for former College campus sites, would need to be developed for the new campuses. It was agreed that, as a consequence, the Strategic Risk associated with Business Continuity be scored high, until this work was completed.

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 Management Action Plans (currently 21 at June 2018)

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.

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

Further strategic risks were added to the College Risk Register in 2017-18:

- Risk 23: "Failure to agree a sustainable model and level of grant funding within Glasgow Region" - this risk combined and summarised two previous strategic risks;
- Risk 24: "Failure of Compliance with the General Data Protection Regulations (GDPR)"
- Risk 25: "Failure of IT system security"

The Risk associated with the completion of the new campus project was removed, while the risk relating to ONS reclassification of colleges was downgraded to a Level 2 risk.

The Committee received regular reports from the regular senior management Risk Management reviews in 2017-17. 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 impact of the national bargaining agreement between the Colleges (via Colleges Scotland) and EIS was closely monitored and discussed, specifically the cost to the College sector of the emerging settlement became apparent..

Towards the end of session 2016-17, EIS initiated strike action, and 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. As these risks were managed, the corresponding risk scores diminished.

The table below summarises the key Strategic Risks which the College managed, and which the Audit Committee monitored throughout 2017-18: (as approved by the Board of Management - June 2018):

Strategic Theme	Risk Name	RAG Status
Students	1. Failure to support student success	A
	2. Failure to establish optimal pedagogical model	G
	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
	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	A
	24. Failure of Compliance with the General Data Protection Regulations (GDPR)	A
	11. Failure of Corporate Governance	G
	12. Failure of Business Continuity	A
	25. Failure of IT system security	A
	13. Failure to manage performance	G
	14. Negative impact of Industrial Action	A
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
	20. Failure to obtain funds from College Foundation	G

	22. Negative impact of Brexit	A
	23. Failure to agree a sustainable model and level of grant funding within Glasgow Region	R

Closed Session

In recognition of the need for furtherance of good governance practice in line with the Code of Good Governance 2016, the Committee had instigated in 2016-17 a yearly meeting with the External and Internal Auditors in a private session where management is not present. However in 2017-18 the Committee agreed that this be retained as a standing item for each meeting, to be taken at the conclusion of the agenda as appropriate without management presence.

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 has been circulated to Committee members. The Areas for discussion are set out thus:

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.

In session 2017-18, members did not identify any particular items they wished to raise with the auditors.

APPENDIX 1: COMMITTEE TERMS OF REFERENCE (Approved June 2018)

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.