

Board of Management

Meeting of the Audit Committee

**MINUTE OF 2nd MEETING HELD ON WEDNESDAY 13 NOVEMBER 2019 AT 1700 HRS
(AC2)**

Present	
George Galloway (GG)	Graham Mitchell (GM) Convenor
Lorna Hamilton (LH)	Ronnie Quinn (RQ)
Paul Hillard (PH)	
In attendance	
David Archibald (Henderson Loggie) (DA)	Aileen Ireland (AI)
Alisdair Barron (AB)	Paul Little (PL)
Paul Buchanan (GCRB) (PB)	Sheila Lodge (SL)
Paul Clark, College Secretary (PC)	Alex Stewart (AS)
Guy Clinton (GC) (Item 5.4 only)	Stuart Thompson (ST)
Gary Devlin (Scott Moncrieff) (GD)	
Jim Godfrey (GCRB) (JG)	Ann Butcher (Minute)
Apologies for absence	

Item AC2-1	Welcome and Apologies for Absence	
Paper No:	Lead: Convener	Action requested: Note
Decision/Noted	None	

Item AC2-2	Declarations of Interest	
Paper No:	Lead: Convener	Action requested: Note
Decision/Noted	None.	

Item AC2-3	Items to be Discussed Privately with Auditors	
Paper No:	Lead: Convener	Action requested: Note
Decision/Noted	Members agreed that following normal business the meeting would be followed by a member-only closed session with External and Internal Auditors present.	

Item 5.4 was taken at this time.

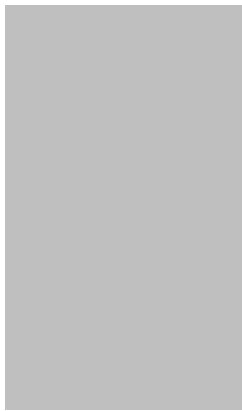
Item AC2-5.4		Data Protection Update
Paper No: AC2-F	Lead: S Lodge	Action requested: Discuss
Discussion	<p>SL introduced GC, Data Protection Officer to the Committee. GC provided members with an update following an initial gap analysis of data repositories which had recently been carried out. Areas identified as requiring immediate reinforcement have now been updated and improved. It is anticipated that the College will be "Article 30 document compliant" by the end of this year. GDPR training will be provided in all departments including nomination of Head of Privacy roles.</p> <p>It is expected that full data governance for the Article 30 project will be achieved by the end of March 2020.</p>	
Decision/Noted	To note the update on progress made against the Data Protection Internal Audit recommendations.	

GC left the meeting at this time.

Item AC2-4.1		Minute of the Meeting held on 18 September 2019
Paper No: AC2-A	Lead: Convener	Action requested: Approve
Decision/Noted	That the minute be approved. All action points from the previous meeting were reviewed and noted as complete.	

Item 5.5 was taken at this time.

Item AC2-5.5		Internal Audit Forensic Report
Paper No: AC2-G	Lead: D Archibald (HL)	Action requested: Discuss
Discussion	<p>PL referred to previous discussion on the ongoing internal College fraud investigation which is now complete. In response, he had subsequently requested that an Internal Audit forensic investigation be carried out in order to establish the <i>modus operandi</i> and scale of the alleged fraud and to provide an overall review of the internal control processes currently in place. This report has now been completed and a comprehensive review of findings was circulated in hard copy to members. It was noted that the report was currently non-disclosable due to the concurrent police investigation which is still in progress, and the draft nature of the report which is subject to finalisation following Audit Committee consideration.</p> <p>DA provided a detailed review on the findings following the forensic investigation. Based on evidence presented by CoGC, it was determined that a fraud had been perpetrated by misappropriation of high value IT equipment. The circumstances which allowed the alleged fraud to occur have been investigated and control weaknesses identified. Six recommendations were established. Controls have now been tightened throughout all College areas and the likelihood of any recurrence within any department has been reduced.</p> <p>The Committee noted that a number of issues have been identified as 'Lessons to be Learned' which are either College or sector-wide.</p>	



The scale of the alleged fraud and the net cost to the College was advised. In some instances the supplier has accepted failure to comply with agreed College procurement procedures, which has resulted in a part write-off of the overall cost. This has reduced the value of claim submitted to the loss adjusters. ST further assured that all available steps will be taken to recover any losses incurred.

GD suggested that a management response action plan with implementation dates be added to the report. This was agreed. ST confirmed that all 6 recommendations have now been actioned and are being addressed.

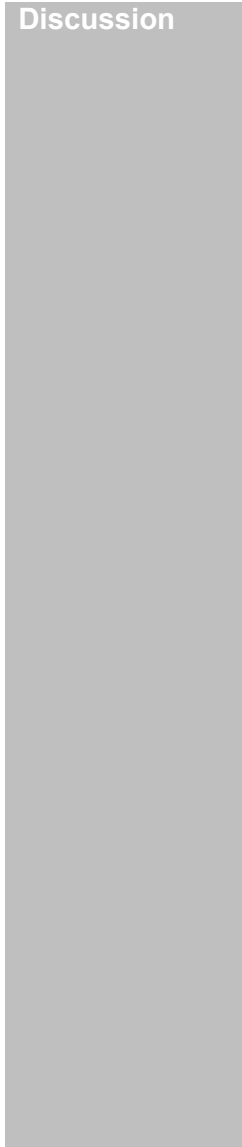
Decision/Noted

- To further discuss the report during the Private Session at the end of the meeting.
- To provide a management response action plan.

Item AC2-4.2 Annual Report 2018-19 (Draft)

**Paper No:
AC2-B**

Lead: P Clark/S Thompson Action requested: Approve



PC introduced the narrative section which was developed with reference to individual Board Committee Annual reports. It is intended that this section will be published as the College Annual Review 2018-19.

ST provided the Committee with an overview of key points within the Financial Statements. He referred to the Parliamentary Report and assured that this provides satisfactory transparency in terms of the ongoing fraud investigation, with External Audit providing reasonable assurance that the statements are free from material misstatement.

ST further confirmed that whilst the statements record a deficit of £6.576m, the full financial statements show an underlying operating surplus of £1.201m following adjustments made for depreciation, payment to Forth Valley College as directed by SFC (following the sale of North Hanover Street building) and, pension and early retirement adjustments.

GD raised the increased level of cash held by the College at the year end and highlighted that the Board should review this prior to the end of each financial year. Several one off transactions have caused an increased cash balance however the balance will reduce back to the ongoing average of 28 days expenditure.

Members noted that use of the proceeds from the sale of NHS had been fully disclosed within the accounts including £343k being accrued in the balance sheet GD advised this accrual was an unadjusted audit difference and should be moved from accruals to income. It has now been agreed that this adjustment will not be reflected within the financial statements, on the basis of immaterial impact.

GD referred to the net cost of potential loss following the fraud investigation and considered that the gross amount would need to be reflected within the Report. It was agreed that the amount referred to within the narrative section be revised to the gross amount.

Decision/Noted	To endorse the Annual Report and Accounts 2018-19 for approval by the full Board.
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Item AC2-4.3	Internal Audit Plan 2019-20	
Paper No: AC2-C	Lead: Convener	Action requested: Approve
Discussion	The revised Internal Audit Plan for 2019-20 was submitted. DA advised that the review of Industry Academies and Debtors/Income has now been rescheduled to 2020-21 and a 5-day review of Procurement and Creditors/Purchasing will be undertaken during 2019-20. The outline scope and objectives for the audit assignments were noted.	
Decision/Noted	To approve the revised Internal Audit Plan for 2019-20.	

Item AC2-5.1	Strategic Risk Review	
Paper No: AC2-D	Lead: P Clark	Action requested: Discuss
Discussion	<p>PC provided the Committee with an update on the risks that have been identified as highest scoring risks. The following proposed changes were highlighted:</p> <p>Risk 6 – <i>Negative Impact upon College reputation</i>: due to the current investigation the likelihood has been increased with the overall score 15 (RED).</p> <p>Risk 10 – <i>Negative impact of statutory compliance failure</i> – a potential compliance failure has been identified with regard to public sector website and app accessibility standards. An external audit is proposed and the current risk score is set at 10 (AMBER).</p> <p>Risk 11 – <i>Failure of Corporate Governance</i>: the governance procedures and processes are under focus and are considered rigorous. The risk score 5 (GREEN) was noted.</p> <p>Risk 12 – <i>Failure of Business Continuity</i>: the work of the Business Impact Analyses and development of Business Recovery Plans is now complete. Following the Internal Audit of Business Continuity the risk score has been reduced to 10 (AMBER).</p> <p>Risk 15 – <i>Failure to achieve operating surplus via control of costs and achievement of income targets</i>: the risk score is kept under review by the FPRC. The risk score of 6 (AMBER) was noted.</p> <p>Risk 23 – <i>Failure to agree a sustainable model and level of grant funding within Glasgow Region</i>: the score remains at 12 (AMBER).</p> <p>Risk 24 – <i>Failure of Compliance with the General Data Protection Regulations (GDPR)</i>: the risk score was increased to 12 (AMBER) following the IA report on Data Protection.</p> <p>Risk 25 – <i>Failure of IT system security</i>: Cyber Essentials Plus has now been achieved and the risk score has been reduced to 10 (AMBER).</p>	

Decision/Noted

- The proposed risk score alterations were approved.
- The associated Risk Management Actions Plans were approved.
- The updated Risk Register was approved.

Item AC2-5.2 Register of Interests Update Report**Paper No:
Verbal**

Lead: P Clark

Action requested: Discuss

Discussion

PC advised that all Board members Register of Interests have been updated and are now available on the College website. PC encouraged members to regularly review their Register and advise of any change in circumstances, emphasising that it is the responsibility of individual Board members to ensure that their Register declarations are up to date.

Decision/Noted

To note the update.

Item AC2-5.3 Freedom of Information Report**Paper No:
AC2-E**

Lead: P Clark

Action requested: Discuss

Discussion

PC provided the Committee with an update on the nature and volume of requests received in relation to the Freedom of Information (Scotland) Act 2000 (FOISA) and the Environmental information (Scotland) Regulations 2004 (EIRs).

The volume of requests rose significantly during 2017-18 and have fallen in 2018-19. There has been a significant reduction in requests associated with procurement/finance and the New Campus which accounts for most of the overall reductions. The improvement in response times required within the 20-day timescale from 90% in 2016-17 to 97% in 2018-19 was noted.

Decision/Noted

To note the report.

Item AC2-5.6 Report on Asset Verification**Paper No:
AC2-H**

Lead: P Clark

Action requested: Note

Discussion

ST provided an update on the recent asset verification conducted over the summer period. A comprehensive single asset register has now been produced and all relevant processes and internal controls have been reviewed. Some weaknesses were identified and various changes have been implemented. Physical verification of all College assets will be conducted annually with local managers additionally verifying assets within their responsibility at least twice a year.

It was agreed that a consistent approach with regard to the recording of the financial loss following the alleged fraud activity would need to be applied ie that the gross total before any recoveries should be disclosed. It was also suggested that an additional note advising on possible recovery of assets and confirmation on receipt credit notes to be recovered against future expenditure be added where necessary.

Decision/Noted To note the report.

Item AC2-5.7 Internal Audit Review Report(s) 2018-19

Item AC2-5.7.1 2018-19 Student Activity Data

Paper No: AC2-I Lead: D Archibald Action requested:

Discussion DA reported that following completion of the Internal Audit review of the 2018-19 data return for funding purposes, the Internal audit opinion was:

- The student data returns have been compiled in accordance with all relevant guidance;
- Adequate procedures are in place to ensure the accurate collection and recording of the data; and
- On the basis of their testing the provided reasonable assurance that the FES return contains no material mis-statement.

Decision/Noted To note the overall level of assurance as Good.

Item AC2-5.7.2 Business Continuity

Paper No: AC2-J Lead: D Archibald Action requested:

Discussion The review focused on the controls in place to mitigate failure of Business Continuity. DA advised that the review confirmed the findings of the external Ashton Resilience report which stated that all departmental Business Recovery Plans (BRPs) have been produced and cover all areas and activities within the College.

One Low Level Priority 3 recommendation was made to ensure that a planned scenario testing exercise is undertaken to compare all BRPs. This will further ensure that each individual plan is achievable based on documented interdependencies. This will be undertaken by April 2020.

Decision/Noted To note the overall level of assurance as Good.

Item AC2-5.7.3 Follow Up Reviews

Paper No: AC2-K Lead: D Archibald Action requested:

Discussion DA informed that the follow up review has indicated good progress in implementing the recommendations made in previous reports with 32 (58%) of the 55 recommendations which are past their completion date being classified as 'fully implemented'. 10 recommendations were assessed as 'partially implemented' and 10 as showing 'little or no progress made'. These will be subject to follow-up at a later date. A further two recommendations were considered by management but not implemented.

Decision/Noted To note the report.

Item AC2-5.8 Internal Audit Annual Report 2018-19

Paper No: Lead: D Archibald Action requested: Discuss

AC2-L	
Discussion	<p>DA highlighted the work undertaken during 2018-19 with the exception of the deferral of the planned reviews of staff recruitment and retention and Systems Development/Implementation which has been moved to the 2019-20 annual plan. The 5 days allocated for this review were repurposed towards the completion of the forensic audit report commissioned by the Principal. The Committee noted the following Internal Audit option:</p> <p><i>'With the exception of the weaknesses highlighted around data protection, health and safety, purchasing, asset management and budgetary control, the College has adequate and effective arrangements for risk management, control and governance. Proper arrangements are in place to promote and secure Value for Money. This opinion has been arrived at taking into consideration the work IA have undertaken during 2018/19. This included follow-up of recommendations made by the College's previous internal auditors.'</i></p>
Decision/Noted	To note the report.

Item AC2-5.9	External Audit Annual Report 2018-19	
Item AC2-6.1	External Audit Management Letter	
Paper No: AC2-M	Lead: G Devlin	Action requested: Discuss
Discussion	<p>GD introduced the Report and outlined the main elements and findings of the external audit for 2018-19 including the financial statements and wider dimensions of financial sustainability, financial management, governance and transparency and, value for money.</p> <p>The Committee noted that the annual report section of the accounts runs to some 120 pages. It was suggested that the College review and consider reducing the content of the report narrative in future years, to ensure key messages are captured and communicated appropriately.</p> <p>It was further noted that whilst any fraud in a public body is serious, for the purposes of the annual accounts audit, the value of the identified fraud was not considered material in the year or in total. The Report confirmed that the College has made adequate disclosures within the annual report and accounts to ensure that the reporting of fraud issues has been sufficiently transparent. As a result, External Audit has not modified their audit report in respect of this matter. As previously discussed, the estimated cost of the loss will be amended to the gross amount.</p> <p>GD further added that whilst there were not significant difficulties encountered during the audit, the draft accounts received were incomplete and required a number of changes to be fully compliant. This resulted in a delay in finalising the audit.</p> <p>GD also confirmed that External Audit intended to provide an unqualified opinion on the financial statements, the regularity of transactions and other prescribed matters. He further indicated that there were no matters which were required for report by exception.</p>	

	GM referred to the small operating surplus position and highlighted the need to be vigilant in terms ongoing costs. It was agreed that this would be closely monitored in year, ie at the full Board meeting in February 2020.
Decision/Noted	To note the External Audit Annual Audit Report 2018-19.

Item AC2-6.2	Health & Safety Audit Report - Update	
Paper No: AC2-O	Lead: S Lodge	Action requested: Note
Decision/Noted	To note the progress towards completing the actions arising from the IA report on Health and Safety.	

Item AC2-6.3	Updated Financial Regulations	
Paper No: AC2-P	Lead: S Thompson	Action requested: Note
Decision/Noted	To note the updated College Financial Regulations approved by the FPRC on 6 October 2019.	

Item AC2-6.4	FR authorised Limits Report	
Paper No: AC2-Q	Lead: S Thompson	Action requested: Note
Decision/Noted	To note the report.	

Item AC2-6.5	Report on Staff Compensation Payments	
Paper No: AC2-R	Lead: S Thompson	Action requested: Note
Decision/Noted	To note the report.	

Item AC2-7	Any Other Notified Business	
Verbal	Lead: Convener	Action requested: Discuss
Decision/Noted	None notified.	

Item AC2-8	Disclosability of Papers	
Verbal	Lead: P Clark	Action requested: Note
Decision/Noted	No changes proposed.	

Item AC2-9	Date of Next Meeting	
Paper No:	Lead:	Action requested: Note
Decision/Noted	Wednesday 19 February 2020	

The open part of this meeting closed at 1940 hours, following which the Committee members met in closed session to discuss the Internal Audit Forensic Report, with the College Secretary in attendance.

ACTION POINTS ARISING FROM THE MEETING

Item	Description	Owner	Target Date
AC2-5.5	Internal Audit Forensic Report: To provide a management response action plan.	PL/ST	ASAP

ACTION POINTS ARISING FROM PREVIOUS MEETINGS

Item AC1-5	Description	Owner	Target Date
AC1-5	Committee Annual Report 2018-19: Amend Report text as agreed.	PC	13 11 19 Complete
AC1-7	Freedom of Information Report: Provide a complete report at next meeting.	PC	13 11 19 Complete
AC1-8.1	IA Report – Health & Safety: Progress actions as a matter of urgency.	SL	ASAP Complete
AC1-8.1	IA Report – Health & Safety: Provide regular updates to the Board.	SL	Ongoing Complete
AC1-8.4	IA Report – Data Protection (DP): Expedite completion deadline dates.	SL	Ongoing Complete
AC1-9	IA Progress Report: Further review IA Plan at Closed Session.	ALL	15 05 19 Review 13 11 19 Complete