

## Audit Committee Meeting

Date of Meeting	Friday 7 October 2016
Paper Title	Annual Report on the Provision of Internal Audit Services for 2015/16
Agenda Item	11
Paper Number	AC1-G
Responsible Officer	Henderson Loggie
Status	Disclosable
Action	For discussion

### 1. Report Purpose

- 1.1. Consider the annual report to the Board and Executive Director on the provision of internal audit services for 2015/16.

### 2. Recommendations

- The Committee is invited to **note** the annual internal audit report for 2015/16, attached to this report.

### 3. Annual Report on the Provision of Internal Audit Services

- 3.1. In 2015/16, three areas for GCRB internal audit were identified, and the table below lists these and the respective audit findings in terms of overall level of assurance.

Area of Audit:	Overall level of assurance:
ROA development/monitoring of progress against ROA:	Good
GCRB risk management/oversight of assigned colleges risk management	Satisfactory
Financial performance monitoring (GCRB and assigned colleges)	Satisfactory

- 3.2 For each of the above areas, the report highlights a number of areas of strength, alongside identifying some weaknesses. The report notes that there were no significant issues identifying major internal control weaknesses and that this demonstrates good progress in addressing areas that have previously contributed to the Scottish Funding Council not yet awarding fundable body status to GCRB.
- 3.3 It is the opinion of the Internal Auditor that whilst GCRB has systems demonstrating adequate and effective arrangements for risk management, control and governance, and proper arrangements are in place to promote and secure Value for Money, it is important that the further work to finalise implementation of the operational arrangements required for fully operational fundable body status is completed as soon as possible.

**4. Risk Analysis**

**4.1.** The annual internal audit report provides evidence that the areas audited meet control objectives.

**5. Legal Implications**

**5.1.** There are no specific legal implications.

**6. Financial Implications**

**6.1.** The provision of internal audit is a necessary component of an organisation's overall governance arrangement with regard to both financial and other matters.

**7. Regional Outcome Agreement Implications**

**7.1.** Through the Regional Outcome Agreement and associated requirements, GCRB has to have effective governance arrangements, of which internal audit is part.



**Glasgow Colleges' Regional Board**

**Annual Report to the Board and Executive Director on the  
Provision of Internal Audit Services for 2015/16**

**Internal Audit Report No: 2016/05**

**Draft Issued: 9 September 2016**

**Final Issued: 13 September 2016**

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# 1. Annual Report and Opinion

## Introduction

- 1.1 We were appointed in November 2015 as internal auditors of Glasgow Colleges' Regional Board (GCRB) for the period 1 August 2015 to 31 July 2016. This report summarises the internal audit work performed during 2015/16.
- 1.2 An Audit Needs Assessment (ANA), based on the areas of risk that GCRB is exposed to, was prepared as part of our internal audit programme for 2015/16 (internal audit report 2016/01, issued December 2015). The ANA was prepared following discussion with the Interim Chief Officer, Interim Chair of the Board, and the Chair of the Audit Committee, and from a review of various GCRB documents. The ANA was based on GCRB's risk register supplemented by our own assessment of the risks faced by GCRB. Following on from the ANA an Annual Plan for 2015/16 was drawn-up, and this was approved by the Audit Committee, together with the ANA, at its meeting on 11 March 2016.
- 1.3 The work undertaken in the year followed that set out in the Annual Plan for 2015/16.
- 1.4 The reports submitted are listed in Section 2 of this report and a summary of results and conclusions from each assignment is given at Section 3.
- 1.5 An analysis of time spent against budget is at Section 4.

## Public Sector Internal Audit Standards (PSIAS) Reporting Requirements

- 1.6 GCRB has responsibility for maintaining an effective internal audit activity. You have engaged us to provide an independent risk-based assurance and consultancy internal audit service. To help you assess that you are maintaining an effective internal audit activity we:
  - Confirm our independence;
  - Provide information about the year's activity in this report; and
  - Provide quality assurance through self-assessment and independent external review of our methodology and operating practices.
- 1.7 Self-assessment is undertaken through:
  - Our continuous improvement approach to our service. We will discuss any new developments with management throughout the year;
  - Ensuring compliance with best professional practice, in particular the PSIAS;
  - Annual confirmation from all staff that they comply with required ethical standards and remain independent of clients;
  - Internal review of each assignment to confirm application of our methodology which is summarised in our internal audit manual; and
  - Annual completion of a checklist in April to confirm PSIAS compliance.

## Public Sector Internal Audit Standards (PSIAS) Reporting Requirements (Continued)

- 1.8 The results of our self-assessment are that we are able to confirm that our service is independent of GCRB and complies with the PSIAS.
- 1.9 External assessment is built into our firm-wide quality assurance procedures. Henderson Loggie is a member of MHA, a national group of accountancy firms. Continued membership of MHA is dependent on maintaining a good level of quality and adhering to accounting and auditing standards in the provision of our services. Annual quality reviews are conducted to confirm our continuing achievement of this quality. The MHA review in April 2014 included our internal audit service. Overall the review found the firm's policies and procedures relating to internal audit to be compliant with the PSIAS in all material respects.

## Significant Issues

- 1.10 All work in 2015/16 assessed systems as either 'Good' or 'Satisfactory' and there were therefore no significant issues identifying major internal control weaknesses arising from our internal audit work. In general, procedures were operating well in the areas selected, but a few areas for further strengthening were identified and action plans have been agreed to address these issues. This demonstrates good progress in addressing areas that have previously contributed to the Scottish Funding Council not yet awarding fundable body status to GCRB, thereby allowing all responsibilities under the Post-16 Education (Scotland) Act 2013 to be fulfilled.

## Opinion

- 1.11 In our opinion, whilst GCRB has systems demonstrating adequate and effective arrangements for risk management, control and governance, and proper arrangements are in place to promote and secure Value for Money, it is important that the further work to finalise implementation of the operational arrangements required for fully operational fundable body status is completed as soon as possible. This opinion has been arrived at taking into consideration the work we have undertaken during 2015/16 and the position regarding fundable body status.

## 2016/17 Plan

- 1.12 We were initially appointed as internal auditors for one year, and no internal audit plan was prepared for 2016/17. Following a tender process we have been reappointed as internal auditors for the period 2016/17 to 2019/20. An audit needs assessment and plans for this period will be prepared and presented to the Audit Committee later in 2016.

## 2. Reports Submitted

Number	Title	Overall Grade	Recommendations	Priority 1	Priority 2	Priority 3
2016/01	Audit Needs Assessment and Annual Plan 2015/16	<b>N/A</b>	N/A	N/A	N/A	N/A
2016/02	GCRB Risk Management / Oversight of Assigned College's Risk Management	<b>Satisfactory</b>	7	-	1	6
2016/03	Financial Performance Monitoring (GCRB and Assigned Colleges)	<b>Satisfactory</b>	4	-	1	3
2016/04	Regional Outcome Agreement (ROA) Development / Monitoring of Progress against ROA	<b>Good</b>	1	-	-	1

Overall gradings are defined as follows:

<b>Good</b>	System meets control objectives.
<b>Satisfactory</b>	System meets control objectives with some weaknesses present.
<b>Requires improvement</b>	System has weaknesses that could prevent it achieving control objectives.
<b>Unacceptable</b>	System cannot meet control objectives.

Recommendation grades are defined as follows:

<b>Priority 1</b>	Issues which require the consideration of the Board or one of its committees.
<b>Priority 2</b>	Significant matters that the Executive Director can resolve.
<b>Priority 3</b>	Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.

## 3. Summary of Results and Conclusions

### 2016/01 – Audit Needs Assessment (ANA) and Annual Plan 2015/16

#### Final Issued February 2016

An ANA, based on the areas of risk that GCRB is exposed to, was prepared in December 2015. An Annual Plan for 2015/16 was then drawn-up (refer paragraph 1.2 above).



## 2016/02 – GCRB Risk Management / Oversight of Assigned College's Risk Management

The scope of this audit covered whether there were adequate policies and procedures in place to assess risk and mitigate against the possibility of unexpected and unplanned events and situations developing. This included consideration of how GCRB receives assurance that assigned colleges are managing risk.

The table opposite notes each separate objective for this review and records our results.

### Strengths

- There was a robust risk management framework in place, with a detailed Risk Management Policy and Procedure and Risk Management Guidance which set out responsibilities, risk tolerances and risk scoring definitions;
- There was a risk register in place which was regularly reviewed and reported to the GCRB Board;
- Risk Mitigating Action Plans set out in detail risk mitigating action, and regular updates on mitigating actions were provided to the Audit Committee; and
- There were formal plans for assurance from assigned colleges to be obtained and reported on to the Audit Committee.

### Weaknesses

- A small number of areas for improvement within the Risk Management Policy and Procedure and Risk Management Guidance were noted;
- Most risks were above their risk tolerance acceptable scores which indicated that either the tolerances should be amended or further mitigating controls put in place, or a mixture of both; and
- The GCRB risk register could have been expanded to include some further risks which we identified.

A number of more minor observations were discussed with the Interim Chief Officer and were provided separately to the Executive Director for consideration.

Final Issued – June 2016

Overall grade: Satisfactory

The objectives of the audit were to ensure that:	
1. A formal risk management framework is in place which includes: assessing GCRB's propensity for risk; risk identification and assessment; risk mitigation; and reporting and monitoring of key risks	Good
2. Risk management policies and procedures are formally documented	Satisfactory
3. Responsibility for managing risks is clearly assigned and responsible individuals have been trained in risk management	Satisfactory
4. Risk management is embedded within GCRB's activities and is undertaken on all projects	Good
5. There is adequate ongoing monitoring and reporting of risk management processes, as well as consideration of how to continually improve these	Satisfactory
6. There is an appropriate process in place in order to gain oversight of assigned colleges' risk management frameworks, and to review the assurance that is provided over these by college management, Boards and external auditors	Good
<b>Overall Level of Assurance</b>	<b>Satisfactory</b>

## 2016/03 – Financial Performance Monitoring (GCRB and Assigned Colleges)

Final Issued – June 2016

Overall grade: Satisfactory

The scope of this audit covered budget monitoring and management procedures in place for both GCRB and GCRB oversight of the assigned colleges, including reporting to the Board and the Scottish Funding Council.

The table opposite notes each separate objective for this review and records our results.

### Strengths

- There was a process in place for preparing reports on GCRB expenditure and the financial performance of assigned colleges and these were reviewed by the Performance and Resources Committee (P&RC); and
- The City of Glasgow College finance section and the Vice Principal Resources of Glasgow Clyde College were involved which reduced the administrative burden for the small team at GCRB regarding producing financial monitoring information and reports.

### Weaknesses

- There was no formal agreement between City of Glasgow College and GCRB setting out what authorisations (including ensuring there was segregation of duties between the GCRB expenditure requester and the GCRB expenditure authoriser) were required to be received before processing GCRB expenditure transactions;
- There was the ability to amend the GCRB financial procedures around budget monitoring to better tailor these to reflect actual practice and the structure of GCRB;
- Although assigned colleges' financial monitoring reporting to the P&RC was in place there was the opportunity to improve and refine this, and agree on what reports should be provided to the P&RC over their annual cycle of meetings; and
- Assigned colleges' assumptions in the 2015/16 FFRs were not all the same and there would be benefit in aligning these, with the key assumptions applied being reported to the P&RC.

The specific objectives of the audit were to obtain reasonable assurance that:	
1. Budget monitoring and management policies and procedures are formally documented	Satisfactory
2. Responsibility for managing performance against budget is clearly set out	Good
3. There are regular budgetary control reports prepared for the Interim Chief Officer in relation to GCRB running costs	Good
4. Reports are requested from assigned colleges that are appropriate to monitor financial performance, and the risk of financial difficulties at each assigned college, and are: received on a timely basis; comprehensive enough to analyse current issues and the risk of financial difficulties arising; and identify what action is being undertaken to address any financial issues	Good
5. Adequate financial performance monitoring reports covering both the GCRB and assigned colleges are provided to the GCRB Board and the P&RC on a regular basis	Satisfactory
6. There is adequate and timely reporting of financial performance information to the Scottish Funding Council as requested	N/A
<b>Overall Level of Assurance</b>	<b>Satisfactory</b>

**2016/04 – Regional Outcome Agreement (ROA) Development / Monitoring of Progress against ROA**

**Final Issued – June 2016**

**Overall grade: Good**

The scope of this audit covered whether the procedures in place to develop, review and approve the ROA were adequate, and to determine whether there was appropriate monitoring of progress against ROA targets.

The table opposite notes each separate objective for this review and records our results.

**Strengths**

- There was a robust framework in place underpinning the development of the 2016/17 ROA, which was based on the regional Curriculum and Estates Plan 2015-2020, the ROA 2014/15 – 2016/17, and input from a range of staff in the GCRB assigned colleges;
- A ROA programme was in place during the development setting out tasks, owners and deadlines; and
- There was a strong process to monitor progress against the 2015/16 ROA, with information gathered from the assigned colleges, reviewed in detail by the P&RC, and also provided to the GCRB Board for oversight of progress.

**Weaknesses**

- Reliance was placed on assigned colleges to provide accurate updates on progress against the ROA targets throughout the year, with no process in place to obtain assurance over whether these were reasonable. We recommended that underlying student records information should be obtained from the assigned colleges and reviewed to provide extra assurance in this area.

<b>The specific objectives of the audit were to obtain reasonable assurance that:</b>	
1. There is a robust process to prepare, review and approve the ROA, including identifying local skills needs and establishing baselines against which progress with development towards a fully regional strategic approach can be compared in future years	<b>Good</b>
2. There are appropriate mechanisms to ensure that the impact of the curriculum and estates review phase I (in progress) is taken into account in allocation of education provision and funding between assigned colleges	<b>Good</b>
3. Processes and procedures are in place to obtain accurate and up-to-date information from assigned colleges to monitor progress against ROA targets on a regular basis	<b>Satisfactory</b>
4. The GCRB Board and P&RC regularly receive and review information measuring progress against ROA targets, including monitoring any corrective action	<b>Good</b>
<b>Overall Level of Assurance</b>	<b>Good</b>

## 4. Time Spent – Actual v Budget

	Report number	Planned days	Actual days feed	Days to fee at August 2016	Days to spend / WIP	Variance
<b>Corporate Planning</b>						
<i>Regional Outcome Agreement (ROA) Development / Monitoring of Progress against ROA</i>	2016/04	4	4	-	-	-
<b>Risk Management</b>						
<i>GCRB Risk Management / Oversight of Assigned Colleges Risk Management</i>	2016/02	4	4	-	-	-
<b>Finance</b>						
<i>Financial Performance Monitoring (GCRB and Assigned Colleges)</i>	2016/03	4	4	-	-	-
<b>Other Audit Activities</b>						
Management and Planning )	2016/01	3	2	1	-	-
External audit )						
Attendance at audit committees )						
<b>Total</b>		15	14	1	-	-
		=====	=====	=====	=====	=====