

Audit Committee Meeting

Date of Meeting	Tuesday 5 December 2017
Paper Title	Implementation of Internal Audit Recommendations
Agenda Item	9
Paper Number	AC2-E
Responsible Officer	Jim Godfrey, Interim Finance & Resources Director
Status	Disclosable
Action	For discussion

1. Report Purpose

- 1.1. Consider progress in respect of the Internal Audit Plan for 2016-17.

2. Recommendations

- 2.1. The Committee is invited to **note** the progress made to implement the recommendations of the previous Internal Audit reports.

3. Report

- 3.1. At its previous meeting, the committee received a progress report from the Internal Auditor. The report showed that 18 (of the 27 recommendations made) had been fully implemented. Of the remainder, 7 had been partially implemented, 1 had little progress and 1 had been considered but not implemented. The purpose of this report is to show progress against the recommendations since the last meeting. The detail of each is shown within the annex to this report.
- 3.2. Of the 7 that had been partially implemented in October 2017 a further 3 are now fully complete.
- 3.3. Therefore there are 5 outstanding recommendations at this stage; one in respect of the regional outcome agreement, one in respect of financial performance management and three regarding the financial memorandum. The detailed progress against each recommendation is shown within the Annex to this report. For the next report, we will remove the completed actions and only show progress against the 5 outstanding recommendations.

4. Risk Analysis

- 4.1. The report provides evidence that GCRB is responding to the recommended improvements identified by internal audit and taking action to improve internal controls.

5. Legal Implications

5.1. There are no specific legal implications arising from this report.

6. Resource 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. Strategic Plan 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
Internal Audit Report 2017/03 – Regional Outcome Agreement

Original Recommendation	Priority	Management Response	To Be Actioned By	No Later Than	Progress at November 2017
<p>R1 The Executive Director should obtain information from each assigned college's student records system and analyse this to gain assurance that assigned colleges' ROA progress information submitted is reasonable.</p>		Agreed	Executive Director	December 2017	<p>New ROA monitoring arrangements being developed by the Regional Lead for Student Data will include a requirement for colleges to provide direct FES reports to GCRB on a bi-monthly basis. These arrangements will begin on 15 December 2017.</p>

Glasgow Colleges' Regional Board
Internal Audit Report 2015/01 – Financial Performance Monitoring

Original Recommendation	Priority	Management Response	To Be Actioned By	No Later Than	Progress at November 2017
<p>R3 The P&RC should agree what financial monitoring report/s they should receive in each of their annual cycle of four meetings. The format (both headings within the narrative section of the report, and the layout of the financial information) should also be agreed.</p>	<p>3</p>	<p>Agreed. The colleges' Sustainable Institutions Group will draft financial monitoring report/s for consideration at the next meeting of the GCRB Performance and Resources Committee.</p>	<p>Chair of Colleges Sustainable Institutions Group</p>	<p>August 2016</p>	<p>Arrangements for monitoring by GCRB of college financial data are to be considered at the meeting of the Performance and Resources Committee in March 2018.</p>

Glasgow Colleges' Regional Board
Internal Audit Report 2017/03 – Compliance with SFC Financial Memorandum

Original Recommendation	Priority	Management Response	To Be Actioned By	No Later Than	Progress at November 2017
<p>R1 Undertake a review of compliance with the Code of Good Governance for Scotland's Colleges and update the Audit Committee Terms of Reference to state that it will receive a report on GCRB compliance with the Code annually from the GCRB Secretary for its review.</p>	2	<p>Review of Code of Governance to be provided to the next meeting of the Audit Committee.</p> <p>Terms of Reference to be updated.</p>	Board Secretary	15 May 2017	<p>Complete: The review of compliance with the Code of Good Governance was considered by the Audit Committee at its meeting on 15 May 2017. The review will now take place annually and has been added to the Audit Committee's long-term agenda.</p>
<p>R2 Create and insert within the Financial Procedure Manual the GCRB anti-bribery procedures and ensure that these meet the requirements of the Bribery Act 2010.</p>	2	<p>Draft policy provided to the Audit Committee for consideration.</p>	Interim Finance & Resources Director	15 May 2017	<p>Complete: The Audit Committee approved the policy on 15 May 2017. The policy was confirmed at the Board meeting on 22 May 2017.</p>

Glasgow Colleges' Regional Board
Internal Audit Report 2017/03 – Compliance with SFC Financial Memorandum

Original Recommendation	Priority	Management Response	To Be Actioned By	No Later Than	Progress at November 2017
<p>R3 Amend the Audit Committee Terms of Reference to state that:</p> <ol style="list-style-type: none"> 1) the Audit Committee will monitor the effectiveness of external audit and report the findings of this to the Board; 2) the members should be non-executives or independent (SPFM); and 3) the GCRB Audit Committee must inform the SFC Audit Committee if it considers that it has identified a significant problem which may have wider implications (for the FE sector or public sector) (SPFM). 	3	Terms of Reference to be amended.	Board Secretary	15 May 2017	<p>Complete: Audit Committee Terms of Reference were agreed by the Audit Committee at its meeting on 15 May 2017. The revised Terms of Reference were confirmed at the Board meeting on 3 September 2017.</p>
<p>R4 Each year obtain copies of the assigned colleges' Audit Committee annual reports (which are provided to the assigned colleges' Boards) and have the Director of Finance & Resources review these and report any exceptions noted to the Audit Committee.</p>	2	Copies of assigned colleges' Audit Committee annual reports 2015/16 were reviewed during w/c 24 April by the Interim Finance & Resources Director. Comments were provided to the Executive Director to enable the letter of assurance to be submitted to the Scottish Funding Council.	Interim Finance & Resources Director	30 April 2017	<p>Complete: Copies of the annual reports for 2015/16 were received and reviewed. This action has now been incorporated within the Audit Committee's long-term agenda and the 2016/17 reports will be considered at the meeting on 5 December 2017.</p>

Glasgow Colleges' Regional Board
Internal Audit Report 2017/03 – Compliance with SFC Financial Memorandum

Original Recommendation	Priority	Management Response	To Be Actioned By	No Later Than	Progress at November 2017
<p>R5 Update the Financial Procedures Manual to state:</p> <ol style="list-style-type: none"> 1) that the GCRB Director of Finance & Resources must inform SFC when an internal auditor is appointed and must inform SFC immediately if the internal auditor is removed or departs before the end of their term of office (para 19); 2) that the internal audit Annual Reports for GCRB and the assigned colleges should be forwarded by the Director of Finance & Resources to the SFC (para 22); 3) that where the SPFM requires bodies to notify or request prior approval from the Scottish Government then GCRB must, in the first instance, contact SFC (Section 3, para 7); 4) that cash reserves in the GCRB bank account are to be kept at a minimum (Section 3, para 10); 5) the requirements of the Financial Memorandum regarding contingent liabilities (section 3 paras 15 and 16); 6) the Financial Memorandum's requirements regarding delegated financial limits (section 3 para 17); 7) the Financial Memorandum's requirements regarding novel, contentious or repercussive expenditure (section 3 para 18); 	<p>2</p>	<p>Some sections have already been drafted in revisions made to the Financial Procedures Manual by Henderson Loggie as part of this audit. The following sets out which sections have been updated:</p> <ol style="list-style-type: none"> 1) Section 11 2) Not yet revised 3) Section 01 4) Section 03 5) Section 10 6) Not yet revised 7) Section 14 8) Not yet revised 9) Not yet revised 10) Not yet revised <p>The remaining sections to be revised by the Interim Director of Finance & Resources.</p>	<p>Interim Director of Finance & Resources</p>	<p>31 May 2017</p>	<p>In-progress: The Financial Procedures Manual has been updated to reflect these recommendations. The Manual has also been updated to reflect experience gained from using these procedures. The revised financial procedures were considered by the Performance and Resources Committee on 9 October 2017. The revised procedures will be reviewed by the Interim Chair and Chair of Audit Committee before being submitted to the full Board for approval.</p>

Glasgow Colleges' Regional Board
Internal Audit Report 2017/03 – Compliance with SFC Financial Memorandum

Original Recommendation	Priority	Management Response	To Be Actioned By	No Later Than	Progress at November 2017
<p>R5 (continued)</p> <p>8) a) the need for annual reporting on expenditure over the set reporting levels in Appendix A of S14 of the Financial Procedures Manual (including who will do this and when) and the need to disclose the number of instances and total cost, by category of such expenditure; and b) the Director of Finance & Resources must obtain this information from the assigned colleges and report the GCRB and assigned colleges' figures to the GCRB Board or a GCRB Committee, and also to the SFC (section 3 para 22);</p> <p>9) that the Director of Finance will review assigned colleges' Resource Returns to ensure that there is adequate cash and resource cover in assigned colleges for any arms-length foundation transfers assigned colleges make (section 3 para 23); and</p> <p>10) that the Director of Finance & Resources must review assigned colleges' Resource Returns for impairments and significant movements in provisions and to discuss these with assigned colleges to gain an understanding of the reason for these. For any impairments and significant movements identified this way, or through assigned colleges informing GCRB directly of these, the Director of Finance & Resources must inform the SFC of these as soon as possible (section 3 para 30).</p>	<p>As Above</p>	<p>As Above</p>	<p>As Above</p>	<p>As above</p>	

Glasgow Colleges' Regional Board
Internal Audit Report 2017/03 – Compliance with SFC Financial Memorandum

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<p>R6 Include in the Director of Finance & Resources job description that they have overall responsibility for ensuring compliance with the Financial Procedures Manual.</p>	2	The job description will be amended.	Executive Director	15 May 2017	<p>Complete: Included in the role profile/job description for the advertised post.</p>
<p>R7 Insert into the assigned colleges' Certificate of Assurance to GCRB that they confirm that they have complied with:</p> <ol style="list-style-type: none"> 1) the requirements of the SPFM (except where any special actions or derogations have been agreed with the Scottish Ministers). (para 3); 2) the SPFM requirement for them to notify SFC (via the GCRB) of any item in the SPFM that requires prior approval from the Scottish Government. (para 7); 3) the requirement for overdrafts not to be used as a means of increasing borrowing (para 13); 4) the requirement to seek SFC's prior written consent (via GCRB) before they lend any funds or give a guarantee, indemnity or letter of comfort (para 14); 5) the Financial Memorandum's requirements relating to contingent liabilities (paras 15 and 16); 6) the requirement to obtain SFC's prior written approval (via GCRB) before entering into any undertaking to incur any expenditure that falls outwith delegations set out in Appendix A of the Financial Memorandum (para 17); 	2	Assigned Colleges' Certificate of Assurance to be updated for future returns.	Interim Director of Finance & Resources	31 July 2017	<p>In progress: These actions were appended to the Grant Letter provided to the assigned colleges in respect of the 2017/18 grant. The Certificate of Assurance (in respect of the year ending 31 Mar 2018) will also incorporate these statements.</p>

Glasgow Colleges' Regional Board
Internal Audit Report 2017/03 – Compliance with SFC Financial Memorandum

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<p>7) the requirement to obtain SFC approval (via GCRB) before incurring expenditure for any purpose that is, or might be considered, novel, contentious or repercussive or which has or could have significant future cost implications (paras 18 and 19);</p> <p>8) the requirement to disclose information about frauds to GCRB (para 20);</p> <p>9) the requirement to establish appropriate documented internal delegated authority arrangements consistent with the Delegated Authority section of the SPFM and the Financial Memorandum (para 21);</p> <p>10) the requirement that any severance scheme is approved by SFC (via GCRB) (para 27);</p> <p>11) the requirement to not make any investments of a speculative nature without the prior written approval of SFC (via GCRB) (para 34); and</p> <p>12) the requirement for any contract without competition (non-competitive action) to have been approved in advance by SFC (via GCRB) for any amounts over £25,000 (para 36).</p>	2	As Above	As above	As above	

Glasgow Colleges' Regional Board
Internal Audit Report 2017/03 – Compliance with SFC Financial Memorandum

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<p>R8 The Director of Finance & Resources should obtain assigned colleges' anti-fraud procedures and ensure the requirement to report to SFC (via GCRB) 'as and when they occur' any frauds that are detected is included in them.</p>	2	College procedures requested already and to be reviewed upon receipt.	Interim Director of Finance & Resources	31 May 2017	<p>Complete: The assigned colleges have supplied their procedures which have been reviewed by the Interim Finance & Resources Director. Comments fed back to Colleges where this requirement is not currently present.</p>
<p>R9 Assigned colleges should report the required Appendix A information and provide backup for the figures (such as system generated reports showing the parameters that were used in running the report) and detail what checks they have done to ensure that this information is complete and accurate.</p>	3	Information requested.	Interim Director of Finance & Resources	31 May 2017	<p>Superseded: SFC have confirmed that colleges do not need to provide the information set out in Appendix A of the Financial Memorandum. The Financial Memorandum is due to be updated by SFC by the end of 2017 and this requirement will be removed.</p>

Glasgow Colleges' Regional Board
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<p>R10 The Audit Committee or Audit Committee Chair or Board Secretary should consider whether GCRB complies with the Audit Committee Handbook and where it does not comply consideration should be given to whether GCRB should comply or not, given that there is a degree of flexibility for smaller entities allowed.</p>	3	Review to be undertaken on behalf of the Committee.	Board Secretary	31 July 2017	<p>In progress: The Committee will now incorporate the Audit Committee Handbook checklist in its annual review process.</p>
<p>R11 Create a GCRB fraud policy statement which meets the requirements of the SPFM.</p>	3	A fraud policy statement will be prepared for consideration by the Audit Committee.	Interim Director of Finance & Resources	31 July 2017	<p>Complete: The policy statement was approved by the Board on 30 October 2017.</p>

Original Recommendation	Priority	Management Response	To Be Actioned By	No Later Than	Progress at November 2017
R1 Ensure that in future there is more in-depth review of the GCRB risk register by the Board including review of the risk register, consideration of changes, and requesting updates. The minutes should also better reflect the discussion that was undertaken regarding the risk register and confirm that the risk register was reviewed and confirm any changes agreed.	3	Agreed	Executive Director	The next Board Meeting on 22 May 2017	Complete: The Board's risk workshop in June 2017 agreed the risks facing GCRB. These risks were incorporated into a new risk register and evaluated alongside the Risk Appetite. Changes were also made to the format of the register to reflect feedback and comments from Board members. The updated Risk Register, Policy and Procedures were presented to the Board on 4 September 2017. The minutes of the meeting recorded the discussion.
R2 Ensure that management undertake an annual review of the effectiveness of the system of internal control and provide a report on this to the Board.	3	Agreed	Interim Finance & Resources Director	30 September 2017	Complete: The annual review of the effectiveness of the system of internal control will be reviewed by the Audit Committee at its meeting on 3 October. It will then go forward to the Board Meeting on 30 October 2017.
R3 Ensure that Annual Statement on the Effectiveness of the System of Internal Control in the GCRB Annual Report and Accounts is in line with the format that is set out in this internal audit report.	3	Agreed	Interim Finance & Resources Director	31 October 2017	Complete: The statement on the effectiveness of internal control has been updated in the GCRB Annual Report and Accounts for 2016/17.

Original Recommendation	Priority	Management Response	To Be Actioned By	No Later Than	Progress at November 2017
R4 Put in place a mechanism for reviewing assigned colleges' risk registers and escalating up any risks or issues to GCRB.	2	Agreed	Interim Finance & Resources Director	31 July 2017	Complete: The assigned colleges now provide their risk registers to the Interim Finance & Resources Director. These registers are reviewed with the Executive Director and a report presented to the GCRB Audit Committee. The first such report will be considered on 3 October.