

Audit Committee Meeting

Date of Meeting	Monday 12 December 2016
Paper Title	Implementation of Internal Audit Recommendations
Agenda Item	12
Paper Number	AC2-H
Responsible Officer	Robin Ashton, GCRB Executive Director
Status	Disclosable
Action	For discussion

1. Report Purpose

- 1.1. Consider GCRB management progress made to complete actions made in response to recommendations made within GCRB Internal Audit work undertaken during 2015/16.

2. Recommendations

- 2.1. The Committee is invited to:
- **note** the GCRB management update on recommendations made within GCRB Internal Audit for 2015/16 attached as Annex A; and
 - **agree** that GCRB management should bring forward a further report to the Committee's next meeting setting out how GCRB has addressed any outstanding recommendations contained within the 2015/16 internal audit reports.

3. Background

- 3.1. In 2015/16, the following areas for GCRB internal audit were identified:
- ROA development/monitoring of progress against ROA:
 - GCRB risk management/oversight of assigned colleges risk management
 - Financial performance monitoring (GCRB and assigned colleges)
- 3.2. For each of the related internal audit reports, recommendations were specified to address the areas of weakness, including action owners and planned completion dates.
- 3.1. Annex A provides an overview of all GCRB internal audit recommendations, with the final column providing a GCRB management update on actions taken in response to these recommendations.
- 3.2. Three recommendations currently remain outstanding (numbers 8, 11 and 12 in Annex 1). These relate to GCRB monitoring arrangements for college student record and financial information, and the standardising of assumptions are used by assigned colleges when preparing their FFR information. These will be progressed as part of

work to put in place arrangements for GCRB to gain fully-operational fundable body status.

- 3.3. GCRB management will bring forward a further report to the Committee's next meeting setting out how GCRB has addressed any outstanding recommendations contained within the 2015/16 internal audit reports.

4. Risk Analysis

- 4.1. The reports provide evidence that GCRB is responding to areas of weakness identified through internal audit and taking action to improve internal controls.

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.

Management Update on Recommendations made within GCRB Internal Audit 2015/16

Observation	Risk	Recommendation	Management Progress Update
<p>Risk Management Policy and Procedure We reviewed the Risk Management Policy and Procedure and under section seven, Responsibilities, noted:</p> <ul style="list-style-type: none"> • The Board has advised they wished to be the key group which reviews the risk register but the Risk Management Policy and Procedure is written on the basis that the Audit Committee does this. The ‘Role of the Board’ and ‘Role of the Audit Committee’ sections therefore need to be updated to move the responsibilities from the Audit Committee (about advising the Board on the management of significant risks, seeking assurance over less significant risks, and reviewing risks at each main meeting) to the Board; and • The Board responsibility for ‘monitoring the management of significant risks’ could be merged with ‘review risks at each main meeting’. 	<p>If responsibilities for Risk Management are not clearly set out the Risk Management framework may not be as robust as possible,</p>	<p>R1 Review the Risk Management Policy and Procedure and update to reflect the agreed Risk Management responsibilities of the Board and Audit committee.</p>	<p>Implemented: changes made within updated Risk Management Policy and Procedure (pages 6 & 7).</p>
<p>Risk Management Guidance We reviewed the Risk Management Guidance and noted a number of points. A number of minor points have been raised with the Interim Chief Officer for consideration. The most significant items noted are:</p> <p>Section Seven – Risk Management Action Plans</p> <ul style="list-style-type: none"> • The Risk Management Guidance does not state that the Risk Management Action Plans should detail how the risks are being treated, including key mitigating activities; and • The Risk Management Guidance does not state that, where appropriate, specific activities being undertaken should be written in a way to ensure these are SMART (Specific, Measurable, Achievable, Relevant and Time-bound). 	<p>If the Risk Management framework is not clearly set out within Risk Management documentation there may be inconsistency in how this is applied or interpreted, and the Risk Management framework may not be as robust as possible</p>	<p>R2 Review the Risk Management Guidance for the points noted within this report and amend it as considered appropriate.</p>	<p>Implemented: changes made within updated Risk Management Guidance (page 5).</p>

<p>Risk Escalation A key part of the risk management process is to ensure there is a clear process, and responsibility assigned, for formal risk escalation in the event that a) the likelihood or impact of a risk increases significant and further mitigating action is required, or b) a risk crystallises and contingency plans are required to be put in place. The Scottish Public Finance Manual sets out that there should be formal escalation processes in place.</p>	<p>If the likelihood or impact of risks increases significantly informal arrangements may not escalate risks appropriately to ensure they are mitigated as well as might be possible.</p>	<p>R3 Put in place a formal risk escalation process and document this within the Risk Management Policy and Procedure and / or Risk Management Guidance.</p>	<p>Implemented: changes made within updated Risk Management Policy and Procedure (page 8).</p>
<p>We noted that on the 25 January 2016 Risk Register of the 12 risks set out 10 of these had net risk scores higher than their risk tolerance, meaning that risks are at levels higher than GCRB considers is tolerable, and would indicate a need to:</p> <ul style="list-style-type: none"> • implement a greater level of controls in order to reduce the net risk scores or create contingency plans; or • increase risk tolerances; or • reconsider the net risk scores; • or a mixture of the above. 	<p>Risk levels are higher than the levels considered acceptable by the GCRB Board, and this may impact on GCRB's ability to deliver its strategic goals and statutory objectives.</p>	<p>R4 Consider the implications of the risk scoring and ensure appropriate action is taken.</p>	<p>Implemented: Change to risk tolerance framework endorsed at GCRB Audit Committee on 07.10.16 and agreed at GCRB Board on 31.10.16</p>
<p>Risk Register Review</p> <p>a) Target score We noted the target risk score was the same as the risk tolerance in 11 of the 12 risks given. From discussion with the Interim Chief Officer it was noted that the two are essentially the same and that the target risk score should be removed</p>	<p>There is no benefit from having a risk tolerance and target.</p>	<p>R5 Remove the risk target and update the Risk Management Guidance to reflect this.</p>	<p>Implemented: changes made to Risk Management Guidance, Risk Register and Risk Management Action Plans.</p>

<p>b) Risk Movement: It was noted that the Board cover paper to the 25 January 2016 GCRB Board Risk Register highlighted where there were changes in likelihood or new risks, however it only provided the risk numbers and did not state what these risks were or have a short description outlining why these had changed.</p>	<p>It is inefficient for Board members to have to identify what risks have changed, and Board members may not be aware of why these have changed.</p>	<p>R6 Ensure the Risk Management paper to the Board sets out for all risks that have changed the risk descriptions and reason/s for the change.</p>	<p>Implemented: recommendation followed in GCRB Board papers for 1st July and 29th August, 2016.</p>
<p>Risk Register Completeness We reviewed the risk register for completeness against two other FE Colleges' risk registers, and also from our own consideration of key risks relating to GCRB, and we noted that the following items could be considered for including on the GCRB strategic risk register:</p> <ul style="list-style-type: none"> • Disruption to services and / or partnership working resulting from loss of a key staff member or over office space / IT equipment; and • The Regional Outcome Agreement is not appropriately aligned with local needs / poor market intelligence. <p>We also noted:</p> <ul style="list-style-type: none"> • Risk 12 relates to reputation risk but could be better reworded to deal with external public relations and media relations as well; and • Risk 5 covers 'breakdown in performance in the assigned colleges (including academic quality management arrangements)' but could also refer in the brackets to financial stability issues. 	<p>Not all risks may be adequately monitored and mitigated</p>	<p>R7 Consider whether the Risk Register should be amended for the items noted in this report.</p>	<p>Implemented: recommendations considered at GCRB Board meeting on 1st July, 2016 and updated risk register reviewed at GCRB Board meeting on 29th August, 2016.</p>

<p>We asked the Interim Chief Officer whether there were any processes to gain assurance that the information being submitted by the assigned colleges was accurate and were advised there were no such processes, with trust being placed on each college to ensure the figures were correct. We were advised by the Executive Director however that in the past information had been extracted directly from student registry systems and uploaded by each college into a portal where data was aggregated. We note that this was no longer in use but would be beneficial in providing some assurance over the figures submitted.</p>	<p>ROA progress data submitted may not be accurate, leading to insufficient time to undertake any corrective action to ROA targets and this could lead to ultimately ROA targets not being met</p>	<p>R8 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>	<p>Not yet implemented: Arrangements for monitoring by GCRB of college student record data to form part of SFC/GCRB fully-operational fundable body status implementation plan.</p>
<p>GCRB has a Financial Procedures Manual which includes 15 sections. Within section 13, 'Budgetary Control Procedures for Running Costs', the process for budget setting and monitoring is set out. This includes details of the annual budget timetable, responsibilities of the Executive Director and City of Glasgow College (CoGC) (which provides financial support to set the budget, process transactions and provide budget monitoring reports), the budget setting process, the staff budget, and budget monitoring and management checks. We reviewed these procedures and consider that they are adequate, however we noted that these were slightly different from what was being undertaken in practice.</p>	<p>If budgetary control procedures are not clearly set out this may lead to the budgetary control framework not being as robust as it might be</p>	<p>R9 Amend section 13 'Budgetary Control Procedures for Running Costs' of the GCRB Financial Procedures Manual to reflect the current budgetary control processes in use.</p>	<p>Implemented: Updated Financial Procedures agreed at GCRB Performance and Resources Committee on 10.10.16</p>
<p>Although the GCRB Financial Procedures Manual sets out the requirements of CoGC regarding processing transactions and budgetary control this is not a legally binding document on CoGC. We asked the Head of Finance at the CoGC, who process expenditure on behalf of GCRB, whether there was any formal service level agreement between GCRB and CoGC setting out the requirements of CoGC and what authorisation was required before processing GCRB expenditure, including expense claims of the Executive Director/Interim Chief Executive and we were advised that there is no formal agreement in place. The Interim Chief Officer advised that he did not claim any expenditure reimbursement through GCRB, with any such expenditure being borne by the SFC. He advised that in future he would expect the GCRB Board Chair to sign off the expense claims for the Executive</p>	<p>CoGC may pay amounts for GCRB which have not been appropriately reviewed or not been through a process appropriate segregation of duties (i.e. only checked and authorised by one person)</p>	<p>R10 Include in the Scheme of Delegation that the GCRB Board Chair must sign off the Executive Director's expense claims. In addition, formally agree with CoGC what authorisation they must receive before processing GCRB payments.</p>	<p>Implemented: Change to risk tolerance framework endorsed at GCRB Audit Committee on 07.10.16 and agreed at GCRB Board on 31.10.16</p>

<p>Director. Section 7 of the Financial Procedures Manual requires that the person requesting GCRB expenditure has this authorised by another person, however how this will work in practice is not set out, given that there are only two staff in the GCRB executive.</p>			
<p>Assigned College Financial Performance Reporting Reporting on assigned colleges has developed during 2015/16, and as noted under Objective 4 above the P&RC and Sustainability Sub-Group have discussed their requirements for the level of detail in future reports. Further consideration is needed around what will be reported to each meeting during the annual cycle. It is acknowledged that as a minimum each P&RC meeting should receive a forecast outturn/actual versus budget report similar to that provided in March 2016. Other items for consideration include an annual summary of FFRs and a summary of actual outturns.</p>	<p>Without formally setting out what financial reports should go to each P&RC meeting there is a risk that financial monitoring reports provided to the P&RC are insufficient.</p>	<p>R11 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>Not yet implemented: Arrangements for monitoring by GCRB of college financial data to form part of SFC/GCRB fully-operational fundable body status implementation plan. However, the format of the collated financial forecast return has been agreed.</p>
<p>FFR Assumptions We note that the 2015 FFRs prepared by the assigned colleges were prepared using different assumptions. To ensure that the P&RC can appropriately compare and analyse the FFR information it is important that there are the same key assumptions used and that these are clearly set out. If there are any different assumptions used then the impact of these should be set out.</p>	<p>Financial forecasts from assigned colleges may be misleading if they are not based on the same assumptions.</p>	<p>R12 Ensure that the same key assumptions are used by assigned colleges when preparing their FFR information. Key assumptions should be reported to the P&RC along with a high level explanation for why these assumptions were considered reasonable.</p>	<p>Not yet implemented: Discussions on standardising key assumptions currently being undertaken with GCRB and college Finance management.</p>