

Audit Committee Meeting

Date of Meeting	Monday 12 December 2016
Paper Title	Audit Committee annual report
Agenda Item	16
Paper Number	AC2-K
Responsible Officer	Robin Ashton, GCRB Executive Director
Status	Disclosable
Action	For Noting

1. Report Purpose

- 1.1. This paper provides the Board with a report of the work of Audit Committee for the period since its first meeting on 31 August 2015 to October 2016.

2. Recommendations

- 2.1. The Committee is invited to **consider** and **agree**, subject to any amendment, the Audit Committee's annual report.

3. Background

- 3.1. It is recognised good practice for audit committees to produce annual reports to their boards that summarise the main issues addressed by audit committees.
- 3.2. This report covers the period August 2015 to October 2016.
- 3.3. The Committee met on four occasions during the review period and the minutes of each meeting were submitted to the Board.
- 3.4. The Audit Committee's Terms of Reference are included as Annex A. The Committee has advisory responsibility for: risk management, internal control, accounting policies, the annual accounts, internal and external audit, anti-fraud policies, whistle-blowing processes, arrangements for special investigations, and the annual reports received from the assigned colleges' heads of internal audit.

4. Membership and meetings

- 4.1. Over the period under review, the Committee membership has been as follows:

- Leonie O'Connor (Chair to August 29, 2016)
- Cinzia Biondi (until 2 November 2015)
- Caroline MacDonald (from 27 November 2015)
- Janet McKay (until 30 April 2016)
- Grahame Smith
- Maureen McKenna (from 25 April 2016)

4.2. Representatives from GCRB’s internal and external auditors attend meetings of the Committee on a regular basis, as did the Chair of GCRB as an observer. The GCRB’s Interim Chief Officer (and then Executive Director) also attended meetings and was supported by senior staff from the assigned colleges, where appropriate.

5. Main activities

5.1. The Committee’s main activities are described below.

Internal audit

5.2. The Committee oversaw the tender exercise for the appointment of GCRB’s internal auditor for 2015-16, which was conducted jointly with Glasgow Clyde College. This was a one-year appointment and therefore a second appointment process was undertaken in June/July 2016 conducted jointly with City of Glasgow College. Following the outcome of this process, the committee recommended to the Board that Henderson Loggie be contracted to act as GCRB’s internal auditor for a further three year period.

5.3. Based on a comprehensive audit needs analysis process, the Committee recommended to the Board three areas for internal audit in 2015-16. These are listed below with the respective audit findings in terms of overall level of assurance:

Audit Area	Audit Grading
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

5.1. The internal auditor’s annual report stated that, in their 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.”

5.2. For each of the audit areas, the internal audit reports highlighted a number of areas of strength, alongside identifying some weaknesses. Section 8 in each report provided an action plan to address these areas of weakness, including action owners and planned completion dates and the Committee has reviewed progress to implement these recommendations at meetings of the GCRB Audit Committee over the 2015-16 period.

External audit

5.3. Three areas of issue were identified within the 2014-15 external audit report. These related to:

- Governance;
- Uncertainty regarding the benefit to GCRB of certain legal costs; and
- Absent contract documentation.

- 5.4.** Recommended actions were specified in relation to Governance and contract documentation. No actions were required in relation to legal costs as the auditor was satisfied that a scheme of delegation had since been introduced by management. The Committee has reviewed progress to implement these recommendations at meetings of the GCRB Audit Committee over the 2015-16 period.
- 5.5.** An Audit Scotland Section 22 report on GCRB was produced to draw the Scottish Parliament's attention to the auditor's opinion on Glasgow Colleges' Regional Board's (GCRB) annual report and accounts for 2014/15 and the significant problems relating to GCRB's governance arrangements and its relationships with the three assigned colleges in Glasgow and the Scottish Funding Council during 2014/15.
- 5.6.** The Section 22 report highlighted the fact that whilst GCRB's financial statements for 2014/15 were unqualified, the auditor's report contained an emphasis of matter with regard to weaknesses of governance in GCRB relating to an absence of key systems of assurance and internal control, namely:
- an appropriate risk management framework;
 - key committees such as an Audit Committee and Performance and Resources Committee;
 - an internal audit function;
 - an approved scheme of financial delegation, standing orders or standard financial instructions; and
 - appropriate financial monitoring arrangements
- 5.7.** The GCRB Audit Committee has monitored actions to ensure that the above systems of assurance and internal control have been embedded within GCRB governance and accountability structures and are working effectively.

Risk management Processes

- 5.8.** The Committee reviewed GCRB's new Risk Management Policy and Procedure and Risk Management Guidance at its August 2015 meeting and recommended them to the Board.
- 5.9.** In June 2017, the internal auditor provided a report to the Committee on the operation of these new risk management processes and following consideration of recommendations made by the internal auditor, the committee agreed to recommend to the Board alterations to GCRB risk management processes, including changes to the setting of risk tolerances.

Accounting policies

- 5.10.** As part of its oversight of the 2015-16 annual report and accounts, the Committee considered GCRB's accounting policies. At its October 2016 meeting it considered whether or not GCRB should prepare consolidated accounts, and agreed with the external auditor that it would not be required to do so for 2015-16. This matter will need to be re-visited for 2016-17.

Anti-fraud policies and Whistle-blowing processes

5.11. At its meeting on 7 October 2016 the Committee reviewed the procedures for complaints handling, corporate governance and public interest disclosure, and whistleblowing and fraud disclosures.

Arrangements for special investigations

5.12. The Committee conducted no special investigations.

Annual reports received from the assigned colleges' heads of internal audit

5.13. At its meeting of 13 June 2016, the Committee received the 2014-15 internal audit reports for the assigned colleges.

5.14. At each meeting the Committee receives updates from the most recent meetings of the assigned college audit committees.

Audit Scotland Reports

5.15. The Committee considered the Audit Scotland report, *Scotland's colleges 2016*, and noted the recommendation that the Glasgow Colleges' Regional Board should put in place the arrangements necessary to become fully operational and requested that it review progress reports on this at each of its meetings.

6. Committee effectiveness

6.1. At its meeting of 7 October 2016, the Committee considered the effectiveness of its own arrangements and concluded that the current arrangements are satisfactory.

7. Future work

7.1. The Committee's focus over the next period will be on:

- ensuring that GCRB has in place the appropriate arrangements for assurance, accountability, and internal control for a fully-operational fundable body;
- ensuring that GCRB's strategic processes for risk are dynamic and appropriate to GCRB's structure and operating context;
- consideration of whether consolidated accounts should be prepared for 2016-17;
- consideration of detailed internal audit reports; and
- implementation of internal and external audit recommendations.

8. Risk Analysis

8.1. Consideration and production of annual reports by audit committees is a key part of the arrangements to ensure a proper system of governance and internal control.

9. Legal Implications

9.1. Paragraph 17 of the Financial Memorandum between the Scottish Funding Council and GCRB requires GCRB to have an audit committee.

10. Financial Implications

10.1. There are no specific financial considerations arising from this paper.

11. Regional Outcome Agreement Implications

11.1. Through the conditions of grant associated with the Regional Outcome Agreement, GCRB and the assigned colleges are required to conduct their affairs in accordance with the expected standards of good governance, which include operating appropriate audit arrangements.

Annex B: Audit Committee Terms of Reference

1. CONSTITUTION

- 1.1** The audit committee is constituted as a committee of the Board of the Glasgow Colleges' Regional Board (hereinafter referred to as the Board).
- 1.2** The committee's terms of reference may be amended at any time by the Board.
- 1.3** The committee may from time to time investigate, discuss or review matters outside its terms of reference if required to do so by the Board.

2. AUTHORITY

- 2.1** The committee is authorised:
 - a) to seek any information it requires from any employees of Board in order to perform its duties;
 - b) to obtain, at the Board's expense, outside legal or other professional advice on any matter within its terms of reference;
 - c) to co-opt members for a period of time (not exceeding a year, and with the approval of the Board) to provide specialist skills, knowledge and experience which the committee requires at a particular time;
 - d) to invite any person to a meeting of the committee as and when required;
 - e) to have the right to publish in the directors' annual report details of any issues that cannot be resolved between the committee and the Board; and
 - f) to seek any information from its colleges which it may reasonably require for the purposes or in connection with the exercise of any of its functions.

3. MEMBERSHIP

- 3.1** The committee shall be appointed by the Board from amongst its members and shall consist of not less than three members, at least one of whom shall have recent and relevant financial experience.
- 3.2** The Chair of the committee shall be appointed by the Board.
- 3.3** The Chair of the Board shall not be a member of the committee.
- 3.4** The period of members' appointments will last from their date of appointment until the earlier of: the end of their current period of appointment as a Board member; and a date determined by the Board. The Board will review the membership of all committees at least annually.
- 3.5** The Board Secretary is Secretary to the committee.

4. ATTENDANCE AT MEETINGS

- 4.1** The quorum necessary for the transaction of the business of the committee shall be at least two committee members.
- 4.2** Only members of the committee and other members of the Board have the right to attend committee meetings. However, other individuals such as the Chair of the Board, members of the Board's staff, Assigned College Principals and Assigned College staff may be invited to attend all or part of any meeting, as and when appropriate. If other members of the Board attend a meeting of the Committee, they do not have voting rights.
- 4.3** At the request of the committee a representative of the external and internal auditors shall attend meetings.

5. FREQUENCY OF MEETINGS

- 5.1** Meetings shall be held at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.

6. NOTICE OF MEETINGS

- 6.1** Meetings of the committee shall be called by the Secretary at the request of any of its members or at the request of the external or internal auditors if they consider it necessary.
- 6.2** Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the committee, any other person required to attend, no later than five working days before the meeting.

7. MINUTES OF MEETINGS

- 7.1** The Secretary shall arrange for a minute to be taken of the proceedings and decisions of all meetings of the committee, including recording the names of those present and in attendance.
- 7.2** The draft minutes of committee meetings shall normally be considered at the Board meeting immediately following the committee meeting.

8. RESPONSIBILITIES

- 8.1** The Audit Committee will advise the Board and Executive Director on:
 - a) the strategic processes for risk, control and governance and the governance statement;

- b) the accounting policies, the accounts, and the annual report of the Board, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- c) the planned activity and results of both internal and external audit;
- d) the adequacy of management response to issues identified by audit activity, including external audit's management letter/report;
- e) the effectiveness of the internal control environment;
- f) assurances relating to the corporate governance requirements for the organisation;
- g) proposals for tendering for internal audit services or for purchase of non-audit services from contractors who provide audit services; and
- h) anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.

8.2 The Audit Committee shall:

- a) review the adequacy and security of arrangements for employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- b) review procedures for detecting fraud;
- c) review systems and controls for the prevention of bribery and receive reports on non-compliance; and
- d) review arrangements proposed for special ad hoc investigations.

8.3 In relation to internal audit, the Audit Committee shall:

- a) monitor and review the effectiveness of the internal audit function in the context of its overall risk management system;
- b) make recommendations to the Board for the appointment and removal of the internal auditor;
- c) review and assess the annual internal audit plan;
- d) review reports from the internal auditor;
- e) review and monitor the executive's responses to the findings and recommendations of the internal auditor;
- f) meet the internal auditor at least once a year, without the executive being present, to discuss the remit and any issues arising from the internal audits carried out. The internal auditor has the right of direct access to the Chair of the Board and to the Audit Committee.

8.4 In relation to the assigned colleges the Audit Committee will advise the Board and Executive Director on:

- a) The annual reports received from the assigned colleges' heads of internal audit;

- b) Any notification in relation to the appointment, removal or resignation of an internal auditor; and
- c) Any enquiries or monitoring of the assigned colleges including but not limited to situations where access to the colleges' external auditors may be required or where reports from the assigned colleges internal audit function are being considered.

8.5 The Audit Committee will also periodically review its own effectiveness and report the results of that review to the Board and the Executive Director.

9. REPORTING PROCEDURES

9.1 The committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

9.2 A report of the committee's discussions shall be considered at the Board meeting following the committee meeting. A copy of minutes of the meeting may form the basis of the report.

9.3 The committee will provide the Board with an Annual Report, timed to support finalisation of the accounts and the governance statement, summarising its conclusions from the work it has done during the year.

10. OTHER MATTERS

10.1 The committee shall:

- a) have access to sufficient resources to carry out its duties, including access to the board secretariat for assistance as required;
- b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- c) oversee any investigation of activities which are within its terms of reference; and
- d) review its constitution and terms of reference, at least annually, to ensure it is operating at maximum effectiveness and report the results including recommendations of any changes it considers necessary to the board for approval.