

Audit Committee Meeting

Date of Meeting	Monday 15 May 2017
Paper Title	Internal Audit Report – Review of Risk Management
Agenda Item	10
Paper Number	AC4-F
Responsible Officer	Jim Godfrey, Interim Finance and Resources Director
Status	Disclosable
Action	For noting

1. Report Purpose

- 1.1. A review has been undertaken by Henderson Loggie and the report is provided to the Audit Committee for consideration.

2. Recommendations

- 2.1. The Committee is invited to **note** this report and the recommendations.

3. Report

- 3.1. The Review of GCRB Risk Management and Oversight of Assigned College’s Risk Management was identified in the Internal Audit Plan of work for 2016-17.
- 3.2. The outline scope of the work was as follows: “Following on from the work undertaken in this area during 2015/16 we (*Henderson Loggie*) will assist the GCRB to implement further elements of risk management good practice and ensure that robust internal control systems are in place to identify, assess, manage and report risks. This will include consideration of how the GCRB systems interact with those of the assigned colleges.”
- 3.3. The work undertaken by Henderson Loggie has been conducted with the support of GCRB. The report and recommendations are welcomed.

4. Risk Analysis

- 4.1. The work of the Internal Auditor is informed by an assessment of risk. In addition, the prompt implementation of the actions, in response to the audit recommendations, will enable GCRB to develop its approach to the management of risk.

5. Legal Implications

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

6. Financial Implications

6.1. There are no specific financial implications arising from the report. The work undertaken by the Internal Auditor is a key element of the programme of work for 2016-17. Implementation of the recommended actions will require the commitment of internal resources.

7. Regional Outcome Agreement Implications

7.1. Through the conditions of grant associated with the Regional Outcome Agreement, GCRB is required to conduct its affairs in accordance with the expected standards of good governance, which includes the management of risk.

Glasgow Colleges' Regional Board

GCRB Risk Management / Oversight of Assigned College's Risk Management

Internal Audit Report No: 2017/02

Draft Issued: 04 May 2017

Final Issued: 05 May 2017

LEVEL OF ASSURANCE

Satisfactory

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Level of Assurance

In addition to the grading of individual recommendations in the action plan, audit findings are assessed and graded on an overall basis to denote the level of assurance that can be taken from the report. Risk and materiality levels are considered in the assessment and grading process as well as the general quality of the procedures in place.

Gradings are defined as follows:

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

Action Grades

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

1. Overall Level of Assurance

Satisfactory

System meets control objectives with some weaknesses present.

2. Risk Assessment

This review covered the risk management framework, which encompasses all risks on the Glasgow Colleges' Regional Board's (the GCRB's) Risk Register. As a result, no linkage from the audit work to specific risks has been made.

3. Background

HM Treasury, in its publication 'The Orange Book: Management of Risk – Principles and Concepts', defines risk management as '*All the processes involved in identifying, assessing and judging risks, assigning ownership, taking actions to mitigate or anticipate them, and monitoring and reviewing progress*'.

An effective risk management process is essential to ensure that GCRB can effectively react to risks and continue to operate key activities and ensure that the interests of key stakeholders continue to be met.

The Scottish Government requires that GCRB maintains a risk management framework which is consistent with the Scottish Public Finance Manual requirements. This includes the need to identify and assess risks, set an acceptable level of risk (the risk tolerance), ensure that risks are appropriately responded to and regularly review and monitor risks.

4. Scope, Objectives and Overall Findings

Following on from the work undertaken in this area during 2015/16 we have assisted GCRB by providing information on elements of risk management good practice. In addition, we have conducted a review to determine whether robust internal control systems are in place to identify, assess, manage and report risks. We also considered how GCRB obtains assurance that all three assigned colleges are managing risk appropriately.

The overall outputs and objectives of our audit were three-fold:

- Firstly, to provide GCRB management with good practice risk management models, including examples of risk register formats, for them to consider implementing in order to strengthen the existing risk management framework;

4. Scope, Objectives and Overall Findings (Continued)

- Secondly, to work with the Board, through facilitating a risk workshop, to populate the chosen format of the risk register;
- Thirdly, to obtain reasonable assurance that existing systems in place were sufficient to ensure that GCRB's principal risks were identified and responses to these risks are appropriate to ensure that overall risk is kept within GCRB's approved levels of tolerable risk. This also considered the adequacy of the assurance that GCRB has received from the assigned colleges regarding the adequacy of their risk management frameworks and the extent to which these are operating effectively. We also examined the processes for sharing information from the assigned colleges' risk registers.

We have provided management with copies of good practice risk management documentation and good practice risk management models (including examples of risk registers). Due to the detailed nature of this documentation we have not included this information within this report.

The risk workshop is planned to be held later in 2017 once an updated risk management framework (including an updated Risk Management Policy and Procedure) have been agreed upon.

For the third bullet point above we had a number of individual audit objectives and the table below notes each separate objective and records the results:

Objective	Findings				Action Already Planned
	No. of Agreed Actions				
		1	2	3	
The specific objectives of this audit were to obtain reasonable assurance that:					
1. A formal risk management framework is in place and working effectively which includes: formal risk management policies and procedures; assessing GCRB's risk appetite; risk identification; risk assessment; risk mitigation (including risk owners); and reporting and monitoring of key risks	Satisfactory	0	0	3	
2. There is an appropriate process in place to review assigned colleges' risk registers in order to consider how these might affect GCRB	Requires Improvement	0	1	0	
3. Appropriate assurance is obtained over the effectiveness of assigned colleges' risk management frameworks	Good	0	0	0	✓
Overall Level of Assurance	Satisfactory	0	1	3	
System meets control objectives with some weaknesses present.					

5. Audit Approach

We reviewed risk management good practice and provided GCRB management with good practice risk management models, including examples of risk register formats.

A risk workshop with Board members will be facilitated to populate the new GCRB risk register format in line with the chosen risk management model.

The risk management process for GCRB, and processes for oversight and assurance over assigned colleges' risk management frameworks were discussed with the Executive Director and risk management documentation was reviewed to determine whether the risk management processes in place were robust and functioning effectively.

6. Summary of Main Findings

Strengths

- There is a risk management framework in place, with a detailed Risk Management Policy and Procedure and Risk Management Guidance which sets out responsibilities, risk appetites and risk scoring definitions;
- There is a risk register in place which is regularly reviewed and reported to the GCRB Board; and
- Risk Mitigating Action Plans set out in detail risk mitigating action, and regular updates on mitigating actions are provided to the Audit Committee.

Weaknesses

- Management are aware that there is scope for improving the risk management framework to make it more effective and user friendly for Board members to use, thereby allowing a more robust review of the risk register by the Board. As part of this internal audit assignment we have provided management with good practice models and guidance to assist with this further development of the existing framework, and will be facilitating a future risk workshop to populate a new GCRB risk register;
- Six of the 11 risks on the GCRB risk register presented to the Board on 27 February 2017 were above their acceptable risk tolerance scores. This indicates that either the tolerances should be amended or further mitigating controls should put in place, or a combination of both. As the risk register will be fully revised as part of the risk workshop no recommendation has been raised regarding this;
- There was not an effective process in place to review assigned colleges' risk registers, in order to consider how these might impact on GCRB;
- Management did not undertake a review of the effectiveness of the GCRB system of internal controls for 2015/16 and report this to the Board, as is required by the Risk Management Policy;
- The GCRB Governance Statement wording, regarding the existence of an effective internal control framework, which was contained in the 2015/16 GCRB financial statements was not in line with the required wording; and

6. Summary of Main Findings (Continued)

Weaknesses (Continued)

- For 2015/16, there was not a process in place to receive assurance over the effectiveness of assigned colleges' risk management frameworks. However, the updated Financial Procedures Manual, which was approved by the Board on 27 February 2017, requires the Director of Finance to review the internal and external auditors' annual reports and the assigned colleges' corporate governance statements in order to gain assurance that the assigned colleges' risk management frameworks in place are adequate and effectively working. As this process will commence for the 2016/17 financial year no recommendation has been raised.

7. Acknowledgements

We would like to take this opportunity to thank the staff at the GCRB who helped us during the course of our audit visit.

8. Action Plan

Objective 1: A formal risk management framework is in place and working effectively which includes: formal risk management policies and procedures; assessing GCRB's risk appetite; risk identification; risk assessment; risk mitigation (including risk owners); and reporting and monitoring of key risks

We reviewed the Risk Management framework in place and noted that this was formally set out in the Risk Management Policy and Procedure and Risk Management Guidance. This included:

Risk Tolerance (Risk Appetite)

The Risk Management Policy and Procedure set out the GCRB's risk tolerance (propensity for risk) for a range of different risk categories.

Risk Identification

The Executive Director is responsible for highlighting any changes they consider need to be added to the Risk Register, or any amendments and raising this with the Board. In addition, at each Board meeting the Board are asked if there are any new risks or changes to existing risks that need to be made to the Risk Register.

Risk Assessment

The Risk Register includes an evaluation of likelihood and impact ranked on a scale of one to three, with a maximum score of nine and minimum score of one. There are formal definitions for each score and the scores have been considered by the GCRB Board. There is also a risk colour coding (Red = nine, Amber = six, Green = one to four).

Risk Mitigation

The Risk Management Guidance sets out the need to consider the appropriate reaction to an identified risk (either through mitigating, avoiding, transferring, sharing or accepting the risk). The potential actions to react to risks are set out in the Risk Mitigating Action Plans (Risk MAPs) which are updated by the Executive Director and reviewed by the Board, with any changes made by the Executive Director being highlighted to the Board. We reviewed these for the Risk Register which was considered by the Board on 27 February 2017 and confirmed that these provide a comprehensive description of mitigating actions. The Risk Register has specified risk owners for each individual risk.

Objective 1: A formal risk management framework is in place and working effectively which includes: formal risk management policies and procedures; assessing GCRB's risk appetite; risk identification; risk assessment; risk mitigation (including risk owners); and reporting and monitoring of key risks (Continued)

Observation	Risk	Recommendation	Management Response	
<p>Risk Reporting and Monitoring and Updating Risk Registers The Board is required to review the Risk Register to ensure that key risks are captured, suitable mitigating actions are shown on the Risk MAPs, and to agree the residual risk impact and likelihood. If any new risks are identified between Board meetings these may be raised by the Executive Director with the GCRB Chair for consideration of appropriate action (or actions).</p> <p>We noted that risk register papers provided to the Board requested that the Board: note the attached GCRB risk matrix, risk register and individual risk management action plans; consider the proposed changes to the risk register set out (if any) and any other changes considered appropriate to the GCRB operating environment and risk management updates; and request the GCRB Executive Director to update the GCRB risk register in line with these considerations and present this to the next meeting of the GCRB Board.' We noted however that the minutes of the Board meetings only advised that 'the Board noted the risk register'. The Executive Director advised that there had been limited review of the risk register by the Board because of their workload and agreed that there should have been a more comprehensive discussion.</p> <p>However, the Executive Director highlighted that the changes being made to the GCRB risk management framework should lead to more effective review of the GCRB risk register going forward.</p>	<p>There may not be adequate overview of risks facing GCRB by the Board.</p>	<p>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.</p>	<p>Agreed.</p> <p>To be actioned by: Executive Director</p> <p>No later than: The next Board Meeting on 22 May 2017</p>	
			Grade	3

Objective 1: A formal risk management framework is in place and working effectively which includes: formal risk management policies and procedures; assessing GCRB's risk appetite; risk identification; risk assessment; risk mitigation (including risk owners); and reporting and monitoring of key risks (Continued)

Annual Statement on the Effectiveness of the System of Internal Control

We note that during in 2014/15 there was not a formal risk management framework in place and hence there was no statement on the effectiveness of the system of Risk Management and internal controls in the 2014/15 financial statements.

We noted that the 2015/16 Annual Report and Accounts stated: '**Assessment of corporate governance and review of the effectiveness of the system of internal control:** The required structures, systems and procedures for an effective system of governance and internal control for an effective public body have been fully implemented by GCRB. GCRB has in place arrangements that are designed to ensure that corporate governance is exercised in accordance with the principles for good governance set out in the Financial Memorandum between the SFC and the GCRB and in the Code of Good Governance for Scotland's Colleges.' The Governance Statement also highlighted risk management processes and the work of internal audit, stating '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'.

Observation	Risk	Recommendation	Management Response	
<p>The Risk Management Policy and Procedure requires that management undertake an annual review of the effectiveness of the system of internal control and provide a report to the Board. We note that this was not provided for 2015/16 due to changes in staff within GCRB. The Executive Director advised that this will be conducted shortly after the 2016/17 financial year end and will formally outline the controls in place and the sources of assurance over their effectiveness and this will be provided to the Audit Committee to inform their assessment of the effectiveness of the system of risk management. Although there was no management review of the effectiveness of internal controls for 2015/16 we note that within the 2015/16 Annual Audit Committee Report to the Board the Audit Committee summarised their findings from their review of the effectiveness of GCRB internal controls.</p>	<p>Management may not have adequately reviewed the effectiveness of GCRB's system of internal controls, and this may mask certain weaknesses that the Audit Committee should be made aware of.</p>	<p>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.</p>	<p>Agreed.</p> <p>To be actioned by: Interim Director of Finance & Resources</p> <p>No later than: 30 September 2017</p>	
			Grade	3

Objective 1: A formal risk management framework is in place and working effectively which includes: formal risk management policies and procedures; assessing GCRB's risk appetite; risk identification; risk assessment; risk mitigation (including risk owners); and reporting and monitoring of key risks (Continued)

Observation	Risk	Recommendation	Management Response	
<p>Annual Statement on the Effectiveness of the System of Internal Control (Continued)</p> <p>We note that the assurance provided in the Annual Statement on the Effectiveness of the System of Internal Control in the GCRB Annual Report and Accounts is not in the format that would normally be expected, which would state 'The Board is of the view that there is an on-going process for identifying, evaluating, and managing GCRB's significant risks. This process is reviewed by the Board through assurances provided by the Audit Committee and management' and 'On the basis of the assurances provided from the sources of assurance outlined above, we can confirm that sound systems of governance, risk management and internal control, consistent with the requirements of the SPFM, have operated for the period ended 31 July 20XX and up to the date of approval of the Annual Report and Accounts'.</p>	<p>GCRB may not be providing the required assurances over its internal control framework.</p>	<p>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.</p>	<p>Agreed.</p> <p>To be actioned by: Interim Director of Finance & Resources</p> <p>No later than: 31 October 2017</p>	
			<p>Grade</p>	<p>3</p>

Objective 2: There is an appropriate process in place to review assigned colleges' risk registers in order to consider how these might affect GCRB

We note from our 2015/16 internal audit report on risk management that it was planned from June 2016 that the assigned colleges' internal and external audit reports, which may cover the results of internal and external auditor's reviews of assigned colleges' risk management frameworks, would be provided to the Executive Director for the Executive Director to review before going to the Audit Committee in full. We note that although in practice this has not happened, instead the Audit Committee has been provided with a summary of what has been presented to each assigned college's Audit Committee, which is considered reasonable.

Observation	Risk	Recommendation	Management Response		
<p>We note that at the time of our audit, completed in April 2017, that the Executive Director, Audit Committee and GCRB Board had not reviewed in detail the assigned colleges' risk registers in order to consider how these might affect GCRB.</p> <p>The GCRB Sustainability Sub-Group, which meets on a regular basis to discuss financial planning, the regional funding model, human resources, shared services, and a range of other matters, also has a remit to 'review college and regional risk management'. The Executive Director attends GCRB Sustainability Sub-Group meetings and risk information received should inform the GCRB's Risk Register, allow sharing thoughts on risks including changes in risk scores, and give the Executive Director some assurance that assigned colleges' risks are being managed. However, we noted from review of minutes of the GCRB Sustainability Sub-Group from September 2016 to March 2017 that the GCRB Sustainability Sub-Group were not adequately reviewing college and regional risk registers, risk management frameworks and risk related issues.</p>	<p>Risks related to assigned colleges may not be identified, adequately scored or sufficiently mitigated against which may hinder GCRB in meeting ROA and strategic objectives.</p>	<p>R4 Put in place a mechanism for reviewing assigned colleges' risk registers and escalating up any risks or issues to GCRB.</p>	<p>Agreed.</p> <p>To be actioned by: Interim Director of Finance & Resources</p> <p>No later than: 31 July 2017</p> <table border="1" data-bbox="1722 1161 2116 1257"> <tr> <td data-bbox="1722 1161 1910 1257">Grade</td> <td data-bbox="1910 1161 2116 1257">2</td> </tr> </table>	Grade	2
Grade	2				

Objective 3: Appropriate assurance is obtained over the effectiveness of assigned colleges' risk management frameworks

Assurance over the assigned colleges' risk management frameworks are generally received after year end, although if there is an internal audit report specifically on risk management in an assigned college the findings of this may be noted at the GCRB Audit Committee through the summary of assigned colleges' Audit Committees' activities which are reported on an ongoing basis.

We note that the 2015/16 Annual Audit Committee Report, provided to the Board on 27 February 2017, did not cover in detail whether they had obtained assurance from assigned colleges although it stated 'At its meeting of 13 June 2016, the Committee received the 2014-15 internal audit reports for the assigned colleges' and 'At each meeting the Committee receives updates from the most recent meetings of the assigned college audit committees'.

However, we note the updated Financial Procedures Manual, approved by the Board on 27 February 2017, requires the GCRB to receive: assigned colleges' annual reports and financial statements; signed audit opinions; the internal auditors' Annual Reports and Opinions; the external auditors' Annual Reports; and any other papers that were provided to the management, Board Committees and Board of the assigned college when the financial statements were approved. These are then to be reviewed by the GCRB Director of Finance to: identify any issues or risks that have not previously been identified and these matters should be reported to the GCRB Performance and Resources Committee as considered appropriate; and consider the quality of corporate governance within the assigned colleges. Once the GCRB Director of Finance has finished their review they are required to prepare papers for the GCRB Performance and Resources Committee and the GCRB Audit Committee outlining the results of their review of the Annual Reports and Financial Statements and external audit reports, summarising any new issues, risks or any other matters noted from their review, including matters relating to the financial management or governance of the assigned colleges. This paper is also to be presented to the GCRB Board.

For 2016/17, and future years, it is planned that reliance will be placed on the statements on the effectiveness of systems of risk management and internal controls within the assigned colleges' annual reports, the review of these statements by assigned colleges' external auditors, and the opinion on internal controls provided by the assigned colleges' internal auditors.

The above process of receipt of annual reports (including corporate governance statements), internal and external audit annual reports, review of these and reporting to the Performance and Resources Committee and Audit Committee, as outlined in the Financial Procedures Manual, are considered appropriate to ensure that assurance over assigned college's risk management frameworks have been received, and this process should be undertaken for 2016/17 during 2017/18 once the assigned colleges annual reports and financial statements and reports from internal and external auditors have been finalised.

Based on what is planned for 2016/17, to gain assurance over the effectiveness of assigned colleges' risk management frameworks as set out above, we consider the level of assurance to be obtained is appropriate.