

Audit Committee Meeting

Date of Meeting	Monday 15 May 2017
Paper Title	Internal Audit Report – Compliance with SFC Financial Memorandum
Agenda Item	11
Paper Number	AC4-G
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’s) Compliance with SFC Financial Memorandum was identified in the Internal Audit Plan of work for 2016-17.
- 3.2. The outline scope of the work was as follows: “The SFC Financial Memorandum with Fundable Bodies in the College Sector sets out the formal relationship between the SFC and fundable bodies, and the requirements with which fundable bodies must comply as a term and condition of grant from SFC. The responsibility for ensuring that the GCRB complies with the Financial Memorandum rests with the Board. This audit will look at the systems that have been put in place to ensure compliance with the Financial Memorandum, including required reporting from assigned colleges to the GCRB.”
- 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 reduce the risks relating to the Financial Memorandum.

5. Legal Implications

5.1. Compliance with the Financial Memorandum is a cornerstone of GCRB's fully operational status.

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 include compliance with the Financial Memorandum.



Glasgow Colleges' Regional Board

Compliance with SFC Financial Memorandum



Internal Audit Report No: 2017/03

Draft Issued: 2 May 2017

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LEVEL OF ASSURANCE

Requires Improvement



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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

Requires Improvement

System has weaknesses that could prevent it achieving control objectives.

2. Risk Assessment

This review focused on the controls in place to mitigate the following risks on the Glasgow Colleges' Regional Board ('GCRB') Risk Register:

- If the Scottish Funding Council (SFC) is not satisfied with how GCRB has responded to its requirements for fully-operational fundable body status, GCRB's ability to make a positive difference on the student experience in Glasgow might be constrained (net risk score: 3);
- If key stakeholders lose confidence in GCRB, leverage of current and future partnership resources for delivery of the Regional Outcome Agreement (ROA) will be impaired (net risk score: 2); and
- If the assigned colleges lack confidence in the quality of GCRB's governance, effective collaboration across the region will be impaired and GCRB's ability to make a positive difference on the student experience in Glasgow might be constrained (net risk score: 6).

3. Background

As part of the terms and conditions of grant-in-aid received from the SFC there is a requirement for GCRB to comply with the Financial Memorandum with the SFC ('the Financial Memorandum'). Compliance with the Financial Memorandum is required from the date that GCRB received fundable body status, 1 April 2017. During the audit needs assessment process this was highlighted as an area for review in 2016/17 by the GCRB Executive Director to provide comfort over the systems and assurance mechanisms that have been put in place to ensure compliance with the Financial Memorandum, and identify any areas requiring further improvement.

The Financial Memorandum requires GCRB to follow the Scottish Public Finance Manual (SPFM), except where any special actions or derogations have been agreed with the Scottish Ministers, which are set out at Part 3 (B) of the Financial Memorandum. The SPFM is issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety.

The Financial Memorandum also states that GCRB must comply with the principles of good governance set out in the Code of Good Governance for Scotland's Colleges.

The GCRB has drafted a Financial Memorandum with Assigned Colleges which mirrors the requirements of the Financial Memorandum. SFC reviewed this document and approved it on 15 March 2017, and it has also been approved by the Boards of the assigned colleges. At the time of audit fieldwork these had still to be formally signed by the assigned colleges.

4. Scope, Objectives and Overall Findings

The Financial Memorandum with Fundable Bodies in the College Sector sets out the formal relationship between the SFC and fundable bodies and the responsibility for ensuring that the GCRB complies with the Financial Memorandum rests with the Board.

As requested by GCRB management this audit looked at the systems and assurance mechanisms that have been put in place to ensure compliance with the Financial Memorandum, including required reporting from assigned colleges to the GCRB.

The table below notes each separate objective for this review and records the results:

Objective	Findings		
	1	2	3
The objectives of the audit were to gain reasonable assurance that:	No. of Agreed Actions		
1. Appropriate processes and assurance mechanisms have been put in place to ensure that GCRB complies with the Financial Memorandum	0	4	3
2. Processes are in place to obtain information from assigned colleges where required by the Financial Memorandum	0	3	1
Overall Level of Assurance	0	7	4
	System has weaknesses that could prevent it achieving control objectives.		

5. Audit Approach

For each section of the Financial Memorandum we determined, from discussion with GCRB staff and review of documentation, what processes were in place to ensure GCRB compliance with the Financial Memorandum. We also identified, from discussion with GCRB staff, what the processes were with assigned colleges to obtain information required by the Financial Memorandum and considered what assurance mechanisms GCRB had in place to ensure this information was provided.

6. Summary of Main Findings

Strengths

- GCRB has a strong governance structure in place, along with staff job descriptions, policies and procedures, a Financial Procedures Manual, and financial and Human Resources processes supported by the assigned colleges.

Weaknesses

- This formal review of the requirements of the Financial Memorandum against existing GCRB structures, policies and procedures has identified areas where changes are required to be made in order to ensure that there is full compliance with the Financial Memorandum going forward;
- This formal review of what information is required to be received from the assigned colleges under the requirements of the Financial Memorandum with the assigned colleges has identified areas where processes need to be put in place in GCRB to ensure such information is received; and
- The Financial Memorandum requires compliance with the SPFM. We noted that the Financial Procedures Manual did not adequately cover off all of the relevant requirements of the SPFM and we have suggested changes in wording to the existing Financial Procedures Manual to ensure compliance with the SPFM going forward.

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

Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
Part I para. 17	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.	2	Review of Code of Governance to be provided to the next meeting of the Audit Committee.	Y	Board Secretary	15 May 2017
			Terms of Reference to be updated.	Y	Board Secretary	15 May 2017
Part I para. 17	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.	2	Draft policy provided to the Audit Committee for consideration.	Y	Interim Director of Finance & Resources	15 May 2017

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Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
Part 2 para. 15 and SPFM	<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.	Y	Board Secretary	15 May 2017
Part 2 para. 16	<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 Director of Finance & Resources. Comments were provided to the Executive Director to enable the letter of assurance to be submitted to the Scottish Funding Council.	Y	Interim Director of Finance & Resources	30 April 2017

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Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
Parts 2 and 3 various paras	<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); 	2	<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>	Y	Interim Director of Finance & Resources	31 May 2017

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Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
	<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>					

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Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
Part 2 para. 19	R6 Include in the Director of Finance & Resources job description that they have overall responsibility for ensuring compliance with the Financial Procedures Manual.	2	The job description will be amended.	Y	Executive Director	15 May 2017

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Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
Part 3 various paras	<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.	Y	Interim Director of Finance & Resources	31 July 2017

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Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
	<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>					

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Para Ref.	Recommendation	Grade	Comments	Agreed Y/N	Responsible Officer For Action	Agreed Completion Date
Part 3 para. 20	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.	2	College procedures requested already and to be reviewed upon receipt.	Y	Interim Director of Finance & Resources	31 May 2017
Part 3 para. 22	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.	3	Information requested.	Y	Interim Director of Finance & Resources	31 May 2017
SPFM	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.	3	Review to be undertaken on behalf of the Committee.	Y	Board Secretary	31 July 2017
SPFM	R11 Create a GCRB fraud policy statement which meets the requirements of the SPFM.	3	A fraud policy statement will be prepared for consideration by the Audit Committee.	Y	Interim Director of Finance & Resources	31 July 2017

9. Detailed Findings

Objective 1: Appropriate processes and assurance mechanisms have been put in place to ensure that GCRB complies with the Financial Memorandum

Objective 2: Processes are in place to obtain information from assigned colleges where required by the Financial Memorandum

From review of the Financial Memorandum we noted that there was non-compliance with the following sections of the Financial Memorandum, for which recommendations have been included in the Action Plan at Section 8 of this report.

Financial Memo Section	Exceptions
<p>Part 1 17. SFC requires the governing body to comply with the principles of good governance set out in the Code of Good Governance for Scotland's Colleges. SFC also requires the governing body to ensure that:</p> <ul style="list-style-type: none"> The institution has a sound system of internal management and control, including an audit committee, an effective internal audit service, and adequate procedures to prevent fraud or bribery 	<p>We were advised that the Secretary to the Board will be reviewing GCRB's compliance with the Code in more detail and that going forward this will be done on an annual basis and reported to the Audit Committee. The Secretary plans to create a Corporate Governance workplan and this would be on it.</p> <p>Recommendation: 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> <p>There are no procedures regarding bribery in the GCRB Financial Procedures Manual, although it was noted that the Bribery Act is mentioned a number of times.</p> <p>Recommendation: R2 Create and insert within the Financial Procedures Manual the GCRB anti-bribery procedures and ensure that these meet the requirements of the Bribery Act 2010.</p>

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Financial Memo Section	Exceptions
<p>Part 2 Audit and accounting 15. The governing body must appoint an audit committee and ensure the establishment and maintenance of effective arrangements for the provision of internal and external audit. For incorporated colleges and Regional Boards, Audit Scotland will appoint external auditors.</p>	<p>The GCRB Audit Committee Terms of Reference makes no reference to reviewing external audit effectiveness. Recommendation: R3.1 Include within the Audit Committee Terms of Reference the need to monitor the effectiveness of external audit and report the findings of this to the Board.</p>
<p>16. The Audit Committee must produce an annual report to the governing body of the institution.</p>	<p>There is currently no mechanism in place to ensure that the GCRB Audit Committee receives and reviews the annual reports of the assigned colleges' audit committees. Recommendation: 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>
<p>19. The institution 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.</p>	<p>It is the responsibility of the Director of Finance & Resources to ensure that this is done, however this is not included in the Financial Procedures Manual. Recommendation: R5.1 Update the Financial Procedures Manual to state 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. Recommendation: R6 Include in the Director of Finance & Resources job description that they have overall responsibility for ensuring compliance with the Financial Procedures Manual.</p>

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Financial Memo Section	Exceptions
<p>22. The head of internal audit must produce an annual report for the governing body on its activities during the year. The report must include an opinion on the adequacy and effectiveness of the institution's risk management, internal control, and governance. The report must be presented to the institution's audit committee and a copy sent to SFC.</p>	<p>There is nothing in the Financial Procedures Manual to state that a copy of the GCRB internal audit Annual Report must be sent to the SFC and the Financial Procedures Manual should be updated for this.</p> <p>Recommendation: R5.2 Update the Financial Procedures Manual to state that the internal audit Annual Reports for GCRB and the assigned colleges should be forwarded by the Director of Finance & Resources to SFC.</p>
<p>Part 3 Scottish Public Finance Manual 3. The institution must ensure that its assigned incorporated colleges follow the requirements of the SPFM except where any special actions or derogations have been agreed with the Scottish Ministers.</p>	<p>There is no assurance process in place to ensure that the assigned colleges comply and this should be added to assigned colleges' Certificate of Assurance to GCRB.</p> <p>Recommendation: R7.1 Insert into the assigned colleges' Certificate of Assurance to GCRB that they confirm that they have complied with the requirements of the SPFM (except where any special actions or derogations have been agreed with the Scottish Ministers).</p>
<p>7. In cases where the SPFM requires bodies to notify or request prior approval from the Scottish Government, the institution must, in the first instance, contact SFC.</p>	<p>There is nothing in the Financial Procedures Manual regarding this, and information should be inserted to this effect.</p> <p>Recommendation: R5.3 Update the Financial Procedures Manual to state 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.</p> <p>Recommendation: R7.2 Insert into the assigned colleges' Certificate of Assurance to GCRB that they confirm that they have complied with 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.</p>

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Financial Memo Section	Exceptions
<p>Cash management and banking 10. Grant payment will not be made in advance of need, as determined by the level of unrestricted cash reserves and planned expenditure. Unrestricted cash reserves held during the course of the year should be kept to the minimum level consistent with the efficient operation of the institution and the level of funds required to meet any relevant liabilities at the year-end. Grant-in-aid not drawn down by the end of the financial year shall lapse. Grant-in-aid shall not be paid into any restricted reserve held by the institution. Transfers to arms-length-foundations are permitted.</p>	<p>Although the Director of Finance & Resources will prepare a cash flow return (based on information received from assigned colleges) for SFC, which is aimed at keeping cash reserves to a minimum there is nothing formally set out in the Financial Procedures Manual regarding this. Recommendation: R5.4 Update the Financial Procedures Manual to state that cash reserves in the GCRB bank account are to be kept at a minimum.</p>
<p>13. The institution can operate bank overdraft facilities to assist it in managing the timing of income and expenditure through its bank account. Overdrafts should not be used as a means of increasing borrowing.</p>	<p>There is no assurance process in place to ensure that the assigned colleges have done this and there would be benefit in adding this to the assigned colleges' Certificate of Assurance to GCRB. Recommendation: R7.3 Insert into the assigned colleges' Certificate of Assurance to GCRB that they confirm that they have complied with the requirement for overdrafts not to be used as a means of increasing borrowing.</p>
<p>Contingent commitments 14. The institution must seek SFC's prior written consent if it intends to lend or give a guarantee, indemnity or letter of comfort. The value of the guarantee should be equal to the total contingent liability over the term of the guarantee. In all cases, the institution must take steps to restrict the contingent liability to a minimum and should undertake a careful appraisal of the risks before accepting any contingent liability.</p>	<p>There is no assurance process in place to ensure that the assigned colleges have done this and this should be added to assigned colleges' Certificate of Assurance to GCRB. Recommendation: R7.4 Insert into the assigned colleges' Certificate of Assurance to GCRB that they confirm that they have complied with 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.</p>

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Financial Memo Section	Exceptions
<p>15. The institution should also provide assurance that, in the event of the contingent liability arising, it can be met from within the institution's own resource, or that appropriate insurance cover has been arranged.</p> <p>16. However, SFC's written consent is not required for such arrangements if the indemnity is of a standard type contained in contracts and agreements for 'day-to-day' procurement of goods and services in the normal course of business.</p>	<p>There is nothing in the Financial Procedures Manual regarding contingent liabilities, and this should be included. Recommendation: R5.5 Update the Financial Procedures Manual to state the requirements of the Financial Memorandum regarding contingent liabilities.</p> <p>There is no assurance process in place to ensure that the assigned colleges have complied with this and this should be added to assigned colleges' Certificate of Assurance to GCRB. Recommendation: R7.5 Insert into the assigned colleges' Certificate of Assurance to GCRB that they confirm that they have complied with the Financial Memorandum's requirements relating to contingent liabilities.</p>
<p><i>Delegated financial limits and annual reporting requirements</i></p> <p>17. The institution's specific delegated financial limits are set out in Appendix A. The institution must obtain SFC's prior written approval before entering into any undertaking to incur any expenditure that falls outwith these delegations.</p>	<p>The Director of Finance & Resources and / or Executive Director should seek approval before entering into expenditure above any SFC set financial limits however this is not formally set out in the Financial Procedures Manual. Recommendation: R5.6 Update the Financial Procedures Manual to state the Financial Memorandum's requirements regarding delegated financial limits.</p> <p>There is no assurance process in place to ensure that the assigned colleges have received SFC's prior written approval (via GCRB) before entering into any undertaking to incur any expenditure that falls outwith the delegations in Appendix A and this should be added to assigned colleges' Certificate of Assurance to GCRB. Recommendation: R7.6 Insert into the assigned colleges' Certificate of Assurance to GCRB that they confirm that they have complied with 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.</p>

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Financial Memo Section	Exceptions
<p>18. Prior SFC approval must always be obtained 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.</p> <p>19. What might be regarded as novel or contentious inevitably involves a degree of judgement. Novel would include proposed expenditure or financial arrangements of a sort not undertaken previously or which is not standard practice. Contentious would include proposed expenditure or financial arrangements where there was any doubt as to its regularity – for example, its compliance with relevant legislation or guidance – or its propriety – for example, compliance with the standards expected of publicly funded bodies or their officials. Proposed expenditure or financial arrangements that might be considered to be sensitive politically would also be regarded as contentious.</p>	<p>There is no formal process in place regarding this and this is not set out in the Financial Procedures Manual. Recommendation: R5.7 Update the Financial Procedures Manual to state the Financial Memorandum's requirements regarding novel, contentious or repercussive expenditure.</p> <p>There is no assurance process in place to ensure that the assigned colleges have done this and this should be added to assigned colleges' Certificate of Assurance to GCRB. Recommendation: R7.7 Insert into the assigned colleges' Certificate of Assurance to GCRB that they confirm that they have complied with 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.</p>

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Financial Memo Section	Exceptions
<p>20. In addition, any frauds that are detected must be reported to SFC as and when they occur.</p>	<p>There is no formal process to ensure frauds are reported 'as and when they occur'. Recommendation: 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> <p>The Certificate of Assurance already includes 'Ensure that you have a well communicated fraud policy, an up-to-date fraud response plan and effective avenues for reporting suspicions of fraud', however there would be benefit in expanding this to specifically include disclosure of information about frauds to GCRB. Recommendation: R7.8 Insert into the assigned colleges' Certificate of Assurance to GCRB that they confirm that they have complied with the requirement to disclose information about frauds to GCRB.</p>
<p>21. The institution must establish appropriate documented internal delegated authority arrangements consistent with the Delegated Authority section of the SPFM and this FM.</p>	<p>There is no assurance process in place to ensure that the assigned colleges comply with this and this should be added to assigned colleges' Certificate of Assurance to GCRB. Recommendation: R7.9 Insert into the assigned colleges' Certificate of Assurance to GCRB that they confirm that they have complied with the requirement to establish appropriate documented internal delegated authority arrangements consistent with the Delegated Authority section of the SPFM and the Financial Memorandum.</p>

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Financial Memo Section	Exceptions
<p>22. Appendix A also sets out the levels for certain categories of expenditure above which the institution should report annually to SFC. The report should describe the number of instances and total cost, by category of expenditure.</p>	<p>The Financial Procedures Manual does not set out the need for annual reporting of Appendix A items (who and when) and this should be inserted into the Manual (including the need to report the number of instances and total cost, by category of expenditure), along with the requirement for the Director of Finance & Resources to obtain this information from assigned colleges and report the GCRB and assigned colleges' figures to SFC.</p> <p>Recommendation: R5.8 Update the Financial Procedures Manual to state: 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.</p> <p>There is no formal assurance mechanism in place to ensure that the information provided by assigned colleges relating to the categories in Appendix A of the Financial Memorandum is correct.</p> <p>Recommendation: 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>
<p><i>Donation of surplus funds to arms-length foundations</i> 23. The institution may donate any surplus on its income and expenditure account as at 31 March each year to its arms-length foundation. The donation must take place in the financial year in which it arises, and is subject to sufficient cash and resource cover being available.</p>	<p>Although the Resource Returns are reviewed by the Director of Finance & Resources to ensure that there is adequate cash and resource cover (including for any arms-length foundation transfers) this check has not been included in the Financial Procedures Manual.</p> <p>Recommendation: R5.9 Update the Financial Procedures Manual to state that the Director of Finance & Resources 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.</p>

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Financial Memo Section	Exceptions
<p>27. In line with the requirements of the SPFM, the institution's severance scheme must be approved by SFC. Provided a severance payment is within the parameters of a scheme, which has been approved by the SFC, there will be no need for the institution to seek approval to the individual payment from SFC.</p>	<p>There is no assurance process in place to ensure that the assigned colleges do this and this should be added to the assigned colleges' Certificate of Assurance to GCRB. Recommendation: R7.10 Insert into the assigned colleges' Certificate of Assurance to GCRB that they confirm that they have complied with the requirement that any severance scheme is approved by SFC (via GCRB).</p>
<p>Impairments, provisions and write-offs 30. Assets must be recorded in the Balance Sheet at Depreciated Replacement Cost for Land and Buildings and at Historic Cost less depreciation for Equipment in accordance with the Financial Reporting Manual (FReM). Where an asset, including investments, suffers impairment, it is important that the prospective impairment and background is communicated to the SFC at the earliest possible point in the financial year to determine the budget implications. Any significant movement in existing provisions or the creation of new provisions must be discussed with the SFC.</p>	<p>The Director of Finance & Resources should discuss impairments and provisions with the SFC as required, however there is no requirement in the Financial Procedures Manual for this and this should be inserted. Recommendation: R5.10 Update the Financial Procedures Manual to state 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.</p>
<p>Investments 34. The institution must not make any investments of a speculative nature without the prior written approval of SFC.</p>	<p>There is no assurance process in place to ensure that the assigned colleges do this and this should be added to assigned colleges' Certificate of Assurance to GCRB. Recommendation: R7.11 Insert into the assigned colleges' Certificate of Assurance to GCRB that they confirm that they have complied with the requirement to not make any investments of a speculative nature without the prior written approval of SFC (via GCRB).</p>

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Financial Memo Section	Exceptions
<p>36. Any proposal to award a contract without competition (non-competitive action) must be approved in advance by SFC. Specific delegated authority is given to award a contract without competition for £25,000 or less without advance approval. (See Appendix A)</p>	<p>Assigned colleges should have processes in place within procurement to ensure that any non-competitive action for amounts over £25,000 are identified and raised with SFC, via GCRB, for approval however GCRB does not receive any formal assurance over this.</p> <p>Recommendation: R7.12 Insert into the assigned colleges' Certificate of Assurance to GCRB that they confirm that they have complied with 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.</p>
<p>Scottish Public Finance Manual (Compliance being a requirement of the Financial Memorandum)</p>	
<p>Audit Committee membership must have a minimum of three, who are all non-executives or independent. There must be a non-executive who is the Chair and one member with recent relevant financial experience.</p>	<p>The Audit Committee Terms of Reference does not state that the members should be non-executives or independent, and this should be added.</p> <p>Recommendation: R3.2 Amend the Audit Committee Terms of Reference to state that the members should be non-executives or independent.</p>
<p>The Audit Committee at the earliest opportunity is required to notify the SFC Audit Committee if they consider that they have identified a significant problem which may have wider implications (for the FE sector or public sector).</p>	<p>The Audit Committee Terms of Reference does not include this and this should be added.</p> <p>Recommendation: R3.3 Amend the Audit Committee Terms of Reference to state that 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).</p>

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<p>All audit committees in organisations to which the SPFM is directly applicable are subject to the guidance in the Audit Committee Handbook published by the Scottish Government setting out the fundamental principles of membership and work of audit committees, including explanatory good practice notes. A degree of flexibility will be appropriate in applying the guidance in the Handbook, particularly with regard to smaller accounting entities.</p>	<p>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> <p>Recommendation: 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>
<p>Promoting an Anti-Fraud Culture: In addition to maintaining sound systems of internal control, public sector organisations should also promote an anti-fraud culture. Organisations should therefore make a clear commitment to ethical standards in public life and develop a fraud policy statement in order to communicate their approach to fraud. Model wording for a fraud policy statement can be found in Managing the Risk of Fraud - a Guide for Managers. The Scottish Government's Counter Fraud Strategy and Counter Fraud Policy are reproduced at Annex 1 and Annex 2 respectively of the SPFM.</p>	<p>There is no GCRB fraud policy statement similar to that referred to in the SPFM.</p> <p>Recommendation: R11 Create a GCRB fraud policy statement which meets the requirements of the SPFM.</p>