GCRB | Glasgow Colleges' Regional Board

Board Meeting

Date of Meeting	Monday 28 January 2019
Paper Title	Annual Report of the Internal Auditor 2017-18
Agenda Item	12
Paper Number	BM2-P
Responsible Officer	Jim Godfrey, Finance & Resources Director
Status	Disclosable
Action	For discussion

1. **Report Purpose**

   1.1. To receive Henderson Loggie's internal audit report for 2017-18.

2. **Recommendations**

   2.1. The Board is invited to **consider** the Annual Report of the Internal Auditor 2017-18.

3. **Background**

   3.1. As part of the audit of the internal audit plan, the internal auditors produce an annual audit report. A copy of Henderson Loggie's internal annual audit report is attached as an Annex to this paper.

   3.2. GCRB management have had an opportunity to comment on a draft version of the report. The report was also discussed by the Audit Committee at the meeting on 18 December 2018.

   3.3. The content of the report is for Henderson Loggie to determine. However, it is open to the Board to provide comments to Henderson Loggie.

4. **Risk Analysis, legal/equalities/resource/strategic implications**

   4.1. There are no additional factors to bring to the attention of the Board.

HENDERSON LOGGIE
Chartered Accountants

Glasgow Colleges' Regional Board

Annual Report to the Board and Executive Director on the Provision of Internal Audit Services for 2017/18

Internal Audit Report No: 2018/06

Draft Issued: 14 November 2018

Final Issued: 20 December 2018

Contents

1. Annual Report and Opinion

Introduction

1.1   We were re-appointed in September 2016 as internal auditors of Glasgow Colleges' Regional Board (GCRB) for the period 1 August 2016 to 31 July 2020. This report summarises the internal audit work performed during 2017/18.

1.2   An Audit Needs Assessment (ANA) was undertaken, based on the areas of risk that GCRB is exposed to. The ANA was prepared following discussion with the GCRB Executive Director and Chair of the Audit Committee, and from a review of various GCRB documents. The ANA was based on GCRB's risk register supplemented by our own assessment of the risks faced by GCRB. Following on from the ANA an Annual Plan for 2017/18 was drawn-up (see internal audit report 2018/01, which was approved by the Audit Committee at its meeting on 5 December 2017.

1.3   The work undertaken in the year followed that set out in the Annual Plan for 2017/18. During 2016/17 the plan was reviewed and the proposed three-day review of 'Receipt of funds and funding allocation' was deferred into 2017/18 and three of the five days set aside for 'Corporate Planning' in 2017/18 were accelerated into 2016/17.

1.4   The reports submitted are listed in Section 2 of this report and a summary of results and conclusions from each assignment is given at Section 3.

1.5   An analysis of time spent against budget is at Section 4.

Public Sector Internal Audit Standards (PSIAS) Reporting Requirements

1.6   GCRB has responsibility for maintaining an effective internal audit activity. You have engaged us to provide an independent risk-based assurance and consultancy internal audit service. To help you assess that you are maintaining an effective internal audit activity we:
- Confirm our independence;
- Provide information about the year's activity and the work planned for next year in this report; and
- Provide quality assurance through self-assessment and independent external review of our methodology and operating practices.

1.7   Self-assessment is undertaken through:
- Our continuous improvement approach to our service. We will discuss any new developments with management throughout the year;
- Ensuring compliance with best professional practice, in particular the PSIAS;
- Annual confirmation from all staff that they comply with required ethical standards and remain independent of clients;
- Internal review of each assignment to confirm application of our methodology which is summarised in our internal audit manual; and
- Annual completion of a checklist in May to confirm PSIAS compliance.

Public Sector Internal Audit Standards (PSIAS) Reporting Requirements (Continued)

1.8 The results of our self-assessment are that we are able to confirm that our service is independent of GCRB and complies with the PSIAS.

1.9 External assessment is built into our firm-wide quality assurance procedures. Henderson Loggie is a member of MHA, a national group of accountancy firms. Continued membership of MHA is dependent on maintaining a good level of quality and adhering to accounting and auditing standards in the provision of our services. Annual quality reviews are conducted to confirm our continuing achievement of this quality. The MHA review in April 2014 included our internal audit service. Overall the review found the firm's policies and procedures relating to internal audit to be compliant with the PSIAS in all material respects.

Significant Issues

1.10 There were no significant issues identifying major internal control weaknesses arising from our internal audit work during the year. In general, procedures were operating well in the areas selected. Our review of Corporate Governance, internal audit report 2018/02 - Externally Facilitated Board Effectiveness Review, did highlight some areas for further strengthening and actions have been agreed to address these issues.

Opinion

1.11 In our opinion 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. This opinion has been arrived at taking into consideration the work we have undertaken during 2017/18 and also in previous years.

2. Reports Submitted

Number	Title	Overall Grade	Recommendations	Priority 1	Priority 2	Priority 3
2018/01	Internal Audit Annual Plan 2017/18	N/A	N/A	N/A	N/A	N/A
2018/02	Externally Facilitated Board Effectiveness Review	N/A	N/A	N/A	N/A	N/A
2018/03	Monitoring of Progress Against Corporate Plan	**Good**	-	-	-	-
2018/04	Receipt of Funds and Funding Allocation	**Good**	-	-	-	-
2018/05	Follow-Up Reviews	N/A	One of 11 recommendations examined requires further action	0	1	0

Overall 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.

Recommendation grades are defined as follows:

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.

3. Summary of Results and Conclusions

2018/01 – Annual Plan 2017/18

Final Issued - December 2017

The purpose of this document was to present, for consideration by the Audit Committee, the annual operating plan for the year ended 31 July 2018. The plan was based on the proposed allocation of audit days for 2017/18 set out in the Strategic Plan 2016 to 2019 (although refer to paragraph 1.3 above).

2018/02 – Externally Facilitated Board Effectiveness Review

Final Issued - March 2018

The updated Code of Good Governance for Scotland's Colleges ('the Code'), published in August 2016, contained the following requirement:

"The board must keep its effectiveness under annual review and have in place a robust self-evaluation process. There should also be an externally facilitated evaluation of its effectiveness at least every three years. The board must send its self-evaluation (including an externally facilitated evaluation) and board development plan (including progress on previous year's plan) to its funding body and publish them online".

The requirement for Regional Strategic Bodies, such as Glasgow Colleges' Regional Board (GCRB), to commission and publish an annual review was deferred by one year. Therefore, this report represents the externally facilitated evaluation, described in the updated Code, for the year ending 31 March 2018.

The overall findings of our review were as follows:

- The Board has already demonstrated a clear commitment to good governance through the production of a Board Development Plan (and Diversity Succession Plan, both approved in 2017).
- 11 of the 17 Board Members completed the Self-Evaluation questionnaire and the positive engagement of all 17 Board Members interviewed demonstrates a collective commitment to delivering good governance, which bodes well for future self-evaluation exercises.
- The one to one discussions (and the subsequent pressure testing) confirms high levels of compliance across all five sections of the updated Code. Our assessment against the requirements of the updated Code highlighted several areas of strength spanning all 5 sections of the Code. These strengths are highlighted in Section 4 below.
- Some additional areas for improvement were identified through the one to one discussions, which would enhance the Board arrangements in the context of the updated Code. These are summarised in Section 4 below. Whilst recognising the areas identified for improvement, and the work already underway to refine the existing governance arrangements as GCRB approaches the end of its first full year as a body with Fully Fundable status, our work did not identify any areas of material non-compliance with the relevant parts of the Code of Good Governance for Scotland's Colleges.
- Several of the issues highlighted during the one to one discussions had already been identified as potential improvement areas by the Board and therefore the proposed actions in these areas are included for completeness.
- Reports to the Board demonstrate GCRB's commitment to ongoing monitoring and review of the actions required to maintain and improve the existing governance arrangements, in a manner which integrates with the production of the Annual Governance Statement as part of the GCRB Annual Report.

2018/03 – Monitoring of Progress Against Corporate Plan   **Final Issued – May 2018**   **Overall grade: Good**

Following on from the work undertaken around strategic planning during 2016/17 we reviewed progress made by Regional Leads and identified how progress is being reported to the GCRB Board. We also reviewed reporting arrangements in place covering assigned colleges' performance regarding the seven strategic learning priorities set out in the GCRB Strategic Plan 2017-2022.

The table opposite notes each specific separate objective for this review and our key findings are summarised below:

- Although some Regional Leads had taken the decision not to utilise the template provided by the Executive Director we confirmed, through discussion with a sample of Regional Leads and a review of documentation, that key areas of focus had been identified; that Regional Leads were progressing actions against these key areas; and that the Executive Director was monitoring and reporting on progress made".
- The EREP process is being utilised to gain assurance over the seven strategic learning priorities without adding any additional administrative burden on the assigned colleges; and
- No significant weaknesses were noted during our review.

The objectives of the audit were to gain reasonable assurance that:	
1. There is a clear and appropriate process for issuing, reviewing and approving Cash Flow Returns	**Good**
2. The reporting arrangements in place covering assigned colleges' performance regarding the seven strategic learning priorities set out in the GCRB Strategic Plan 2017-2022 are formally set out and being complied with, and any key issues are escalated on a timely basis for review	**Good**
Overall Level of Assurance	**Good**

2018/04 – Receipt of Funds and Funding Allocation

The scope of this audit was to review the operation of the processes and key internal controls in place over the collation of draw down requests to the SFC, the payment of funding from the SFC to the assigned colleges and the monitoring arrangements from the finances of assigned colleges.

The table opposite each specific separate objective for this review and our key findings are summarised below:

- There is a robust process for the submission, review and approval of Cash Flow Returns;
- The Cash Flow Returns form the basis for the payments from SFC to the assigned colleges;
- At the time of our audit fieldwork there was only a draft unsigned Service Level Agreement (SLA) between SFC and GCRB. We provided feedback on the SLA to SFC and GCRB and the SLA was amended and signed on 21 September 2018. We reviewed an unsigned version of the SLA, provided on 19 September 2018, and consider that this adequately describes how SFC will use the GCRB bank account, including the requirement for authorisations from GCRB for any payments and the need to advise GCRB of any payments made. It also includes requirements to ensure that SFC will have sufficient staff to make payments on a timely basis. We also commented on GCRB financial procedures surrounding the use of the GCRB bank account and these were updated accordingly. The SLA requires that SFC staff comply with relevant GCRB financial procedures;
- The Executive Director and Finance and Resources Director co-ordinate annual leave arrangements to ensure that they are not on leave at the same time. This ensures that one of these key managers will be available to authorise any payments to assigned colleges. GCRB has identified the need to develop contingency arrangements for a scenario when both staff may be unavailable to authorise payments. We were advised this is being taken forward by the Executive Director. As work is already planned regarding this matter no separate recommendation has been raised;
- Bankline controls have been amended so that a second authoriser is required for an administrator to set up any other Bankline user and procedures have been amended to ensure that Bankline authorisers check the bank account details on Bankline payment requests back to original details of the assigned colleges' bank accounts; and
- There is a range of monitoring conducted around assigned colleges finances by the Finance and Resources Director, including review of management accounts; Forecast Financial Returns; Cash Flow Returns; and annual financial statements.

The specific objectives of the audit were to gain reasonable assurance that:	
1. There is a clear and appropriate process for issuing, reviewing and approving Cash Flow Returns	**Good**
2. A robust agreement, supported by appropriate operating controls, is in place between GCRB and SFC for paying funds from the GCRB bank account to assigned colleges	**Good**
3. Appropriate monitoring is undertaken over the financial stewardship of the assigned colleges, specifically including capital, forecasting, income and expenditure and cash flows	**Good**
Overall Level of Assurance	**Good**

2018/06 – Follow-Up Reviews

Final Issued – September 2018

We carried out a follow-up review of recommendations made in Internal Audit reports issued during 2017/18 and also recommendations contained in internal audit reports from earlier years.

The objective of each of our follow-up reviews was to establish the status of implementation of recommendations made in previous internal audit reports.

Our findings from each of the follow up reviews has been summarised as follows:

Area	Recomm-endation Grades	Number Agreed	Fully Implemented	Partially Implemented	Little or No Progress Made	Considered but not Implemented
Follow-up Reviews 2016-17	1	-	-	-	-	-
	2	4	3	1	-	-
	3	7	7	-	-	-
Total		**11**	**10**	**1**	**-**	**-**

The Board has made good progress in the implementation of previous internal audit recommendations with 10 of the 11 recommendations, which were past their agreed completion date at the time of our follow-up review, being classified as 'fully implemented'. The remaining recommendation was evaluated as 'partially implemented'.

The single outstanding recommendation relates to the amendment of the wording on the Certificate of Assurance signed annually by the assigned colleges. We noted that the reason this was not progressed in 2018 was due to an oversight and we are satisfied that plans are in place to address this going forward.

4. Time Spent – Actual v Budget

	Report number	Planned days	Actual days feed	Days to fee at Nov 2018	Days to spend / WIP	Variance
Corporate Governance						
GCRB governance	2018/02	5	5	-	-	-
Corporate Planning	2018/03	2	2	-	-	-
Finance						
Receipt of funds and funding allocation	2018/04	3	3	-	-	-
Other Audit Activities						
Management and Planning)	2018/01	3	3	-	-	-
External audit)						
Attendance at audit committees)						
Follow-up reviews	2018/05	2	2	-	-	-
Total		15	15	-	-	-

5. Operational Plan for 2018/19

5.1   Following our re-appointment as internal auditors for the period from 1 August 2016 to 31 July 2020 audit needs were assessed and prioritised, and a Strategic Plan was formulated covering the 2016/17 to 2018/19 financial years.

5.2   The planned coverage for 2018/19 in the Strategic Plan has been reviewed to determine whether any changes should be made. The key changes made relate to the removal of the planned four day review of Academic Quality Arrangements. These days have been reallocated to a three day Corporate Governance review which will examine the progress across the Glasgow Region in progressing the recommended improvement actions arising from the Externally Facilitated Board Effectiveness Reviews with the remaining day added to the proposed review of Monitoring of Achievement of Target Student Numbers to allow a separate summary report on Further Education Statistics (FES) to be compiled.

5.3   An extract from the revised Strategic Plan, in relation to 2018/19, is attached.

Proposed Allocation of Audit Days

	Priority	Proposed 18/19 Days
Corporate Governance		
GCRB governance)	High	3
Board member recruitment to assigned colleges)	Medium	
Oversight of assigned colleges governance arrangements)	Medium	
Compliance with SFC Financial Memorandum	High	
Reputation – publicity and communications	Medium	
Corporate Planning		
Corporate Plan / ROA development)	Medium	
Alignment with assigned college plans)	High	
Monitoring of progress against Corporate Plan	High	
Monitoring of achievement of target student numbers	High	4
Student engagement	Low	
Risk Management		
GCRB risk management)	High	
Oversight of assigned colleges risk management)	Medium	
Finance		
Budget setting	Medium	
Receipt of funds and funding allocation	High	
Funding recovery	High	
Financial performance monitoring (GCRB and assigned colleges)	High	
Scenario planning	High	3
Other key financial controls	Low	
Monitoring management of major capital projects	Medium	
Student support funds allocation and management	Low	
Processes for preparing consolidated financial statements	Medium	
Performance		
Academic quality arrangements	High	
Sharing of good practice and collaboration	Medium	

Proposed Allocation of Audit Days (Continued)

	Priority	Proposed 18/19 Days
Other Areas		
Staffing issues	Low	
Partnership working (outwith GCRB group)	Medium	
Data Protection	High	
Freedom of Information	Low	
Arrangements with assigned colleges to provide services to GCRB	Medium	
IT systems	Low	
Efficiency studies	Medium	
Follow-up reviews		2
Audit Management		
Management and planning)		3
External audit / SFC)		
Attendance at audit committees)		
Ad Hoc Work		
Assistance with update of financial procedures		
Facilitated risk workshop		
Total		15