

Board Meeting

Date of Meeting	Monday 27 February 2016
Paper Title	Audit Committee annual report
Agenda Item	20
Paper Number	BM4-Q
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 Board is invited to **note** 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 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.

The 2014-15 annual report and accounts

- 5.10.** The Committee reviewed the draft annual report and accounts at its meeting on 11 March 2016 and advised the Board that:
- there were no matters from an audit perspective that prevented the accounts being approved; and
 - the Committee was satisfied that it was appropriate for the accounts to be prepared on the 'going concern basis'.
- 5.11.** In relation to the 2014-15 annual report and accounts, the Committee reviewed the statements regarding the systems of governance and internal control and advised the Board that although the required structures, systems and procedures for an effective

system of governance and internal control have now been established, because they were not complete and fully implemented until recently, it was not possible to rely upon them for the 2014-15 accounting period. However, all expenditure relating to GCRB during the period was handled by the Scottish Funding Council, Glasgow Caledonian University and the City of Glasgow College and GCRB obtained assurance from these organisations that their systems of governance and internal control were operating satisfactorily during the period.

Accounting policies

- 5.12.** 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

- 5.13.** 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. Members agreed a number of amendments to improve the effectiveness, accuracy or to clarify aspects of these GCRB procedures.

Arrangements for special investigations

- 5.14.** The Committee conducted no special investigations.

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

- 5.15.** At its meeting of 13 June 2016, the Committee received the 2014-15 internal audit reports for the assigned colleges.
- 5.16.** At each meeting the Committee receives updates from the most recent meetings of the assigned college audit committees.

Audit Scotland Reports

- 5.17.** 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.