

## Board Meeting

Date of Meeting	Monday 25 April 2016
Paper Title	Audit Committee annual report
Agenda Item	14
Paper Number	BM6-L
Responsible Officer	Leonie O'Connor, Chair of the Audit Committee
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 March 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. The contents of the report were agreed at the Committee's meeting on 11 March 2016 and the attached report was approved by the Chair of the Audit Committee.

### 4. Risk Analysis

- 4.1. 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.

### 5. Legal Implications

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

### 6. Financial Implications

- 6.1. There are no specific financial considerations arising from this paper.

### 7. Regional Outcome Agreement Implications

- 7.1. 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.

## **Annual report of the Audit Committee for the period 31 August 2015 to 31 March 2016**

### **1. Background**

**1.1.** The Audit Committee's Terms of Reference are included as an annex to the separate paper on 'GCRB Governance matters' which is being considered at today's meeting. The Committee has advisory responsibility for: risk management, internal control, accounting policies, the annual accounts, internal and external audit, anti-fraud policies, whistle-blowing processes, arrangements for special investigations, and the annual reports received from the assigned colleges' heads of internal audit.

### **2. Areas of focus**

**2.1.** This annual report outlines the work of the Audit Committee and includes an overview of:

- Committee membership and meetings;
- the Committee's main activities;
- internal and external audit function and performance; and
- the Committee's self-evaluation.

### **3. Membership and meetings**

**3.1.** The Committee membership has been as follows:

- Leonie O'Connor (Chair)
- Cinzia Biondi (until 2 November 2015)
- Caroline MacDonald (from 27 November 2015)
- Janet McKay
- Grahame Smith

**3.2.** Representatives from GCRB's external auditors attended both meetings of the Committee and representatives from the internal auditors attended the Committee's second meeting. The Interim Chief Officer attended both meetings and was supported by senior staff from the assigned colleges, where appropriate.

**3.3.** The Committee met on two occasions during the reporting period and the minutes of each meeting were submitted to the Board.

#### **4. Main activities**

**4.1.** The Committee's main activities are described below.

##### ***Audit and Compliance Committee remit***

**4.2.** The Committee reviewed its Terms of Reference and agreed to recommend certain changes (see the separate paper on 'GCRB Governance matters' which is being considered at today's meeting). Since the Committee was only established on 31 August 2015, it has only met twice and it has not yet had an opportunity to cover all aspects of its remit.

##### ***Risk management***

**4.3.** The Committee reviewed the proposed risk management arrangements at its August meeting and recommended them to the Board.

##### ***Internal control***

**4.4.** 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;
- that included arrangements for the efficient and effective use of public funds;
- 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. GCRB obtained assurance from these organisations that their systems of governance and internal control were operating satisfactorily during the period.

##### ***Accounting policies***

**4.5.** As part of its review of the 2014-15 annual report and accounts, the Committee considered GCRB's accounting policies. At its August meeting it considered whether or not GCRB should prepare consolidated accounts, and agreed with management's view that it would not be appropriate to do so for 2014-15. This matter will need to be revisited for 2015-16.

##### ***The 2014-15 annual report and accounts***

**4.6.** 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'.

**4.7.** The key issues considered in relation to the 2014-15 annual report and accounts were:

- the governance matters referred to in paragraph 4.4 above;
- that the expenditure included in the 2014-15 annual report and accounts was the summation of that handled by the Scottish Funding Council, Glasgow Caledonian University and City of Glasgow College; and
- the income of GCRB was therefore equal to the total of its expenditure.

#### ***Internal audit***

**4.8.** The Committee oversaw the tender exercise for the appointment of GCRB's internal auditor, which was conducted jointly with Glasgow Clyde College. This is a one-year appointment and therefore a new appointment will be required for 2016-17. It is currently planned that the new appointment process will be undertaken jointly with City of Glasgow College and Glasgow Clyde College. Glasgow Kelvin College's current internal audit arrangement continues beyond 2016-17.

**4.9.** The Committee considered the internal audit plan for the year and agreed to recommend it to the Board for approval (see Annex B). The main areas of focus are:

- the process for development of the Regional Outcome Agreement;
- risk management arrangements; and
- financial performance monitoring.

**4.10.** It is expected that the reports from these audits will be presented to the Committee's June meeting.

#### ***External audit***

**4.11.** The Committee:

- reviewed the external audit plan; and
- reviewed the report of the external auditors on the 2014-15 accounts and suggested several changes, which were accepted.

#### ***Anti-fraud policies and Whistle-blowing processes***

**4.12.** At its meeting on 31 August 2015 the Committee reviewed the procedures for fraud, losses, special payments and gifts, and Corporate governance & the public interest.

#### ***Arrangements for special investigations***

**4.13.** The Committee conducted no special investigations.

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

**4.14.** At its June meeting the Committee will receive the 2014-15 internal audit reports for the assigned colleges.

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

**5. Internal audit performance**

**5.1.** Since no internal audit assignments were undertaken during the period, it is not yet possible to assess the performance of the internal auditors (Henderson Loggie).

**6. External audit performance**

**6.1.** The Committee considered the performance of the external auditors, Scott-Moncrieff, and agreed that it had been satisfactory.

**7. Private meeting with internal and external auditors**

**7.1.** In accordance with good practice, the Committee met the internal and external auditors without management. The Committee heard that the Interim Chief Officer and Head of Finance, City of Glasgow College had been very responsive and helpful during the challenging 2014-15 audit process. The external auditors reminded the Committee of the key target of becoming a fully-operational fundable body and once that was achieved group accounts would then have to be prepared. The importance of having a permanent Executive Director in place was also noted and the GCRB Chair confirmed that interviews were due to take place within days and that the transition phase had also been discussed with the Chief Executive of the Scottish Funding Council. The internal auditors stated they too were appreciative of all the help given by the Interim Chief Officer and the City of Glasgow College Head of Finance, and noted that governance was not included in their internal audit report due to its inclusion in the external auditors report and the Audit Scotland report.

**8. Committee effectiveness**

**8.1.** The Committee considered the effectiveness of its own arrangements and concluded that the current arrangements are satisfactory.

**9. Future work**

**9.1.** The Committee's focus over the next period will be on beginning to review how GCRB's relevant procedures have been implemented, including:

- consideration of detailed internal audit reports;
- update on whistleblowing and fraud;
- consideration of whether consolidated accounts should be prepared for 2015-16;
- implementation of internal and external audit recommendations; and
- appointment of new internal auditors.