

Board of Management Audit & Assurance Committee

Date of Meeting	Tuesday 23 November 2021
Paper No.	AAC2-H
Agenda Item	5.5.3
Subject of Paper	Internal Audit Report – Capital Projects
FOISA Status	Disclosable
Primary Contact	Henderson Loggie
Date of production	17 November 2021
Action	For Discussion and Decision

1. Recommendations

The Committee is asked to consider and discuss the report and the management responses to the internal audit recommendations.

2. Purpose of report

The purpose of this review is to provide management and the Audit and Assurance Committee with assurance on key controls relating to the curriculum and financial plans in place for City of Glasgow College and their alignment with the regional plan for Glasgow and the college student number targets.

3. Key Insights

This internal audit of Capital Projects provides an outline of the objectives, scope, findings and graded recommendations as appropriate, together with management responses. This constitutes an action plan for improvement.

The Report includes a number of audit findings which are assessed and graded to denote the overall level of assurance that can be taken from the Report. The 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.

4. Impact and implications

Refer to internal audit report.

City of Glasgow College

Capital Projects

Internal Audit report No: 2021/08

Draft issued: 10 November 2021

Final issued: 17 November 2021



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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	Issue subjecting the organisation to material risk and which requires to be brought to the attention of management and the Audit and Assurance Committee.
Priority 2	Issue subjecting the organisation to significant risk and which should be addressed by management.
Priority 3	Matters subjecting the organisation to minor risk or which, if addressed, will enhance efficiency and effectiveness.



Management Summary

Overall Level of Assurance

Good	System meets control objectives.
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Risk Assessment

This review focused on the controls in place to mitigate the following risks on the City of Glasgow College Strategic Risk Register as of 20 May 2021 noted no specific risks around capital projects. However, we did note one risk relating to the future investment of the capital maintenance grant as follows:

Risk Number 15 - Failure to achieve operating surplus via control of costs and achievement of income targets. (Risk score 20, Red) Key risk - GCRB capital maintenance grant allocation to the College not sufficient to meet investment requirements.

Background

As part of the Internal Audit programme at City of Glasgow College (the College) for 2020/21 we carried out a review of Capital Projects. The Audit Needs Assessment, completed in March 2017, identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Board of Management and the Principal that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

Capital projects are important to ensure that the College invests in its infrastructure and keeps pace with the latest technology. The College presented its 2021/22 Capital Plan to the Finance & Physical Resources Committee (FPRC) and then the Performance and Resources Committee of the Glasgow Colleges' Regional Board (GCRB). The College reported that the new campus is several years old, and replacement of IT equipment and infrastructure remains the key challenge. The College must also fund the £2.5M annual NPD Unitary Charge as part of the ongoing contractual commitment to maintain and replace the estates infrastructure.

For 2021/22, the annual capital allocation was £1.257M to contribute to the Unitary Charge; to replace five boats at the Riverside campus; and to replace the data centre servers at the end of their useful life. There was also an additional £517,490 earmarked to support digital learning (replacement of 500 mobile and desktop devices, and 800 additional Chromebooks to support ESOL students).

As the needs of the College's estate, equipment, and ICT infrastructure change, it is vital that the organisation has the controls established to review capital investment requirements and to work proactively with funders. It is essential then that the College has policies and procedures in place for the planning, control and monitoring of capital projects that accord with good practice.



Capital Projects

Scope, Objectives and Overall Findings

The scope of the audit was to review and test the policies and procedures for the planning, control and monitoring of capital projects.

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

Objective	Findings			
	1	2	3	
The objective of our audit was to obtain reasonable assurance that	No. of Agreed Actions			
1. The capital investment appraisal process, including the information provided to the Board of Management and committees for decision making purposes is robust.	Satisfactory	-	-	2
2. Risk management and contingency planning arrangements are in place for capital projects.	Good	-	-	-
3. The selection and management of consultants and contractors, including the tendering process, is conducted in line with the College’s procurement procedures.	Good	-	-	-
4. Progress made on projects, and expenditure against budget, is monitored by management and Board committees.	Good	-	-	-
Overall Level of Assurance	Good	-	-	2
		System meets control objectives.		

Audit Approach

We reviewed relevant documentation including policies, procedures, management information, minutes, option appraisal documents, bids for funding etc. relating to the College’s capital projects and discussed the approach adopted with the Vice Principal Corporate Services, the Procurement Manager, and the Head of IT.

We considered whether the College’s policies and procedures which are in place to plan, control and monitor capital projects accords with good practice and, on a sample basis, we tested compliance relating to the capital spend from August 2020 to July 2021 around the following capital outlays:

- The provision of the SAN Array (Data Centre Server) (PI111947), and
- The purchase of Levono 100E Chromebooks (PI116463).



Summary of Main Findings

Strengths

- The College sets out its process for assessing capital expenditure needs within its Financial Regulations (2019). Capital expenditure is assessed annually based on the relevant equipment life cycle in order to maintain the value of its fixed assets;
- There are established governance arrangements around the assessment of capital investment needs for the year ahead, which until recently have been low in both number and value due to the development of the new campus. Expenditure and investment needs are submitted to the Finance & Physical Resources Committee (FPRC). The FPRC also approve any applications to the College Foundation for any further requests for capital funding;
- Management have assessed and developed a new programme management office (PMO) and business case template which allows assessment of the capital needs around proposed capital works. As the PMO arrangements develop, so will the maturity around assessing the capital needs of the College;
- Currently, management of the risk associated with capital investment is led by the relevant budget holder. It is the responsibility of budget holders to maintain the capital expenditure in line with their agreed budget. Arrangements for any virement between capital expenditure is clearly documented in the Financial Regulations;
- The development of the revised Estates Strategy and Estates Masterplan, and the approval of the College's Digital Strategy, will allow further risks and opportunities around medium to longer term capital planning to be identified and considered;
- The review of the procurement exercise for the two capital outlays we sample tested was in line with good practice; and
- Progress of actual capital spend against allocated capital funding is monitored through monthly management accounts submitted to the ELT (Executive Leadership Team), SMT (Senior Management Team), FPRC and (in summarised format) to the Board of Management.

Weaknesses

While the audit did not identify any significant control weaknesses, arrangements would be further enhanced if the following areas could be addressed:

- The medium to longer term capital needs should be assessed and defined in a medium to long term capital programme plan. This should consider the implications arising from the Digital Strategy and the Estates Masterplan currently being developed and support proactive investment solutions. The risks associated with future investment requirements of College self-funded equipment or estates needs should also be assessed and documented in the College's Risk Register as part of this annual process.
- The Business Case template should be enhanced to capture further detail on any wider supply chain risks and associated costs identified through option appraisals. The business case should be reviewed by the PMO and by the College's Procurement Service prior to final submission to SMT and ELT.

Acknowledgment

We would like to take this opportunity to thank the staff at the College who helped us during our audit.



Main Findings and Action Plan

Objective 1 - The capital investment appraisal process, including the information provided to the Board of Management and committees for decision making purposes is robust

Over the last five to six years, the College has not required significant capital investment. Currently, the College sets out its process for assessing capital expenditure needs within its Financial Regulations (2019). Capital expenditure is assessed annually based on the equipment life cycles, in order to maintain the value of its fixed assets. As noted above, there is also an annual NPD Unitary Charge of £2.5M to the original contractors of the new campus to maintain the College's estate.

The annual capital expenditure budget is developed by the Vice Principal (VP) Corporate Services and is informed by life cycle maintenance plans from the fixed asset register, operational plans, and budget planning. The annual capital expenditure budget includes all expenditure on land, buildings, equipment, or furniture whether they are funded from capital grants or capitalised for inclusion as fixed assets in the financial statements. The VP Corporate Services leads the process to include all capital projects within the capital budget presented to the Board of Management and provides capital expenditure statements to the Finance & Physical Resources Committee (FPRC).

We were provided with the Capital Additions for August 2020 to July 2021, and we noted that there were only three categories of capital expenditure:

- Laptops and Chromebooks (£1.65M)
- Storage equipment (£701,000), and
- Nautical equipment (£150,000).

To support planning, management submit a five-year revenue forecast on expenditure and income twice a year to the FPRC. The FPRC also approve any applications to the College Foundation. Discussions with management confirmed that the College's Capital Expenditure budgeting process is governed by the funding received from the Scottish Funding Council and as distributed by the Glasgow College's Regional Board (GCRB). The capital Plan for 2020/21 was made up of contributions from the College cash balances (£474,000), Scottish Funding Council (£1.727M), and Capital Grant from the Foundation (£300,000). The final financial budget 2020-21 was approved by the FPRC in March 2021.

However, the Foundation reserves are finite (approximately £4M). As the College-funded equipment and estate requirements change as the new campus ages, further funding must be sought and risks associated with SFC funding to deal with backlog maintenance must be assessed.



Capital Projects

Objective 1 - The capital investment appraisal process, including the information provided to the Board of Management and committees for decision making purposes is robust. (Continued)

It is the responsibility of budget holders to maintain the capital expenditure in line with their agreed budget. Arrangements for any virement between capital expenditure cost centres is clearly documented in the Financial Regulations. The College has also set out the methodology adopted for the management of capital investment under its Treasury Management Policy in Section 36 of the Financial Regulations (2019). It also sets the procurement authorisation limits for single items of expenditure, including capital expenditure, in Section 50.5 of the Financial Regulations.

Our review of the College's Financial Regulations and Procurement Strategy 2020-2022 confirmed that guidance provided around capital investment and procurement requirements was sufficiently detailed and clear. The newly established Programme Management Office will also look to strengthen arrangements around the management of projects and capital expenditure.

The bids for capital expenditure we reviewed were made through the annual budget appraisal process rather than specific capital expenditure business cases. The items sampled did not require specific business cases (and associated risks) to be formally defined. Our review of the Procurement Strategy for these purchases highlighted associated risks and the arrangements for business continuity.



Capital Projects

Objective 1 - The capital investment appraisal process, including the information provided to the Board of Management and committees for decision making purposes is robust. (Continued)

Observation	Risk	Recommendation	Management Response			
<p>Until recently, there has been very little capital expenditure due to the new campus being in place. However, as the new campus ages, the investment required will increase, as will the College's need for self-funded equipment and technology.</p> <p>We were unable to evidence the medium to long term capital plan for the College which sets out the programme of capital investment required over a five-year period. We were therefore also unable to evidence the analysis of specific risk related to the investment needs of capital projects within the College's Risk Register.</p>	<p>Capital expenditure needs may be reactive rather than proactive.</p>	<p>R1 The College's medium to long term capital needs should be assessed and defined in a medium to long term capital programme plan.</p> <p>This should consider the Digital Strategy and Estates Masterplan currently being developed and support proactive investment solutions.</p> <p>A process should be developed to ensure that the longer term capital programme is reviewed annually and on a rolling basis and the impact of changes to investment assessed.</p> <p>The risks associated with future investment requirements of college self-funded equipment or estate should also be assessed and documented in the College Risk Register.</p>	<p>Agreed</p> <p>The longer term capital programme plan will be approved and regularly reviewed by ELT and the Board.</p> <p>Funding the required medium to long term capital need has become a growing risk and will be added to the College Risk Register.</p> <p>To be actioned by: Vice Principal Corporate Services</p> <p>No later than: 31 March 2022</p> <table border="1" data-bbox="1585 1134 2089 1310"> <tr> <td data-bbox="1585 1134 1872 1310">Grade</td> <td data-bbox="1872 1134 2089 1310">3</td> </tr> </table>		Grade	3
Grade	3					



Capital Projects

Objective 1 - The capital investment appraisal process, including the information provided to the Board of Management and committees for decision making purposes is robust. (Continued)

Observation	Risk	Recommendation	Management Response
<p>Governance arrangements around the newly established Programme Management Office (PMO) are currently being embedded, including the use of a business case template for all proposed projects.</p> <p>However, there is currently no formal procedure which details the assessment of capital expenditure requirements arising from capital projects. Discussions with management noted that the Procurement Service and PMO do not conduct formal reviews of project proposals so that they can provide input and support on capital bids prior to their formal submission to the ELT, SMT and Committees.</p> <p>There was one example provided where the wider supply chain costs and risks around the procurement of boats for the Nautical and STEM faculty was not fully assessed, which resulted in unforeseen delays in procuring the items from China.</p>	<p>Without effective stakeholder review there is risk that the full capital costs associated with projects and investments are not fully assessed resulting in increased cost to the College.</p> <p>The Procurement Service and PMO cannot efficiently and proactively plan resources to support capital projects and tender exercises.</p>	<p>R2 The Business Case template should be expanded to capture details, not just on the capital expenditure, but on any wider supply chain risks and associated costs arising from option appraisals.</p> <p>The business case should be reviewed by the PMO and Procurement Service prior to their final submission to ELT and SMT.</p>	<p>Agreed</p> <p>The Business Case template will be updated to include confirmation of formal review by the PMO and Procurement Service.</p> <p>To be actioned by:</p> <p>Vice Principal Corporate Services</p> <p>No later than:</p> <p>31 Jan 2022</p>
			<p>Grade</p> <p>3</p>



Capital Projects

Objective 2 - Risk management and contingency planning arrangements are in place for capital projects

During the sampling of procurement arrangements, we noted risks were identified in the Project Strategy for the SAN Array in line with requirements.

Business continuity arrangements for the capital projects sampled was not relevant and was therefore not completed. However, the newly established Programme Management Office will also look to strengthen risk management arrangements around each project (and the monitoring of mitigating actions and issues that arise from larger, more complex capital projects in the future).

In relation to wider challenges faced by the College in relation to longevity of capital investment and grant funding, we noted that Risk 15 is established and monitored by FPRC and the Board of Management. The future investment needs around the capital investment have not yet been documented and mitigating actions defined. This is addressed by R1 under Objective 1, above.



Capital Projects

Objective 3 - The selection and management of consultants and contractors, including the tendering process, is conducted in line with the College's procurement procedures

The review of the procurement exercise for the two capital expenditures sample tested was in line with good practice.

In relation to the SAN Array, a project strategy was developed and Southern Universities Purchasing Consortium (SUPC) Framework used to obtain a supplier. The College followed the buyer's guide for Lot 4 and a mini competition was completed on PCS-Tender, the national eTendering system for the public sector in Scotland. Two responses were received, and responses rated based on quality and price (60:40) and a recommendation report was signed by the VP Corporate Services and a member of the Board. The award was reviewed by ELT and the Board of Management. The integration was managed by IT and no issues were noted from the budget holder discussions.

The Chromebook purchase was also completed in line with procurement procedures. Quotes were received through the London Universities Purchasing Consortium (LUPC) Framework Lot 3, and ten supplier quotes were received. A recommendation report was developed and approved by the VP Corporate Services and the Chair of the FPRC.

These purchases will be reported as part of the College's Annual Procurement Report in November 2021.

We noted that contractor management is department led, however, work is underway to develop a Contractor Performance Management process by the PMO. Otherwise, our review of the selection and management of contractors and the tendering process confirmed that arrangements were reasonable and in line with good practice.



Capital Projects

Objective 4 - Progress made on projects, and expenditure against budget, is monitored by management and Board committees.

Progress of actual spend against capital budget allocations is monitored through monthly management accounts submitted to ELT, SMT, FPRC, and (in summarised format) to the Board of Management. The capital expenditure sampled tested were one off purchases. In relation to the integration of the SAN Array, the contractor's work was timebound and monitored by IT. Arrangements were reasonable and in line with expectations.

In relation to future work, as part of the revised Digital Strategy, a new Digital Transformation Group was established by the Vice Principal Student Experience to provide strategic oversight and prioritisation of the digital transformation costs and initiatives in line with curriculum needs. This group will provide the necessary overarching governance framework to allow further scrutiny of business cases and capital appraisals. As part of our review on Curriculum Planning (Internal Audit Report 2021/09) we raised a recommendation to expand the remit of the Digital Transformation Group to also include review of the estate needs and any capital expenditure investment as needs of the College's curriculum development.



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