

Board of Management Audit & Assurance Committee

Date of Meeting	12 September 2023
Paper No.	AAC1-C
Agenda Item	4.4
Subject of Paper	Audit & Assurance Committee Annual Report 2022-23
FOISA Status	Disclosable
Primary Contact	Drew McGowan College Secretary
Date of production	4 September 2023
Action	For Approval

1. Recommendations

- 1.1. To review the Audit & Assurance Committee annual report for the 2022-23 academic year and approve it for tabling at the Board of Management for noting.

2. Purpose

- 2.1. To provide the Committee and the Board of Management with a high-level review of the Committee's business throughout the most recent academic year.

3. Consultation

- 3.1. Members are asked to discuss the Committee's annual report and, subject to any changes, approve the paper for tabling at the Board of Management's next meeting for noting.

4. Key Insights

- 4.1. Since 2014-15, following an internal audit recommendation, the Board of Management has established the practice of preparing an annual report for each committee. Annual committee reports are tabled early in the academic year.
- 4.2. The annual reports provide a high-level review and record of the Committee's deliberations and decision-making which can be used by members to reflect on the year, as well as to inform other stakeholders. In addition to the regular publication of Board and committee minutes and papers, annual committee reports demonstrate the College's commitment to openness and transparency.
- 4.3. All of the annual reports prepared for the committees will be used as a basis for the drafting of the College's annual report, in line with the original internal audit recommendation.

5. Impact and Implications

- 5.1. Annual committee reports are one aspect of the Board's established practices that aim to provide assurance to the College's students, staff and other stakeholders, including the Regional Board, that our systems of governance, effectiveness and accountability remain robust and delivered to a high standard.

Appendices:

Appendix 1: Audit & Assurance Committee Annual Report AY 2022-23 Annual Report 2022-23

Audit & Assurance Committee Annual Report AY 2022-23

Introduction

1. The Audit & Assurance Committee is responsible for reviewing the effectiveness of the College's governance arrangements, financial systems, internal controls and risk management practices. The Committee provides assurance to the Board of Management that the College continues to meet the legislative and regulatory requirements applicable to the college sector.
2. G Mitchell convened the Committee and its membership consisted of R Quinn, L Hamilton and P Hillard. R Quinn resigned from the Committee after being appointed as the Convener of the Finance & Physical Resources Committee in December 2022.

Committee Business

3. During this academic year, 5 meetings of the Committee were held to consider the work and priorities of the College within its remit. Members received reports and presentations from members of the Executive Leadership Team (ELT) and Senior Management Team (SMT), as well as from the College's internal and external auditors – Henderson Loggie and Azets respectively. A summary of key issues and business of note is enclosed below.

Annual Report and Accounts

4. D McGowan, College Secretary, and M Drummond, Director of Finance, presented the Annual Report and Accounts 2021-22 to the Committee in November 2022. Members noted that the report highlighted a successful year for the College despite formidable financial and public health challenges for the College and the sector. The Committee recommended the Annual Report and Accounts to the Board of Management for final approval.

External Audit Annual Report

5. The College's external auditors, Azets, were appointed by the Auditor General for Scotland to examine and report on our financial management, financial sustainability, corporate governance and performance. This audit work, undertaken annually for all public bodies in Scotland, is carried out in accordance with Audit Scotland's Code of Audit Practice, the International Standards on Auditing (UK) and the Ethical Standard for Auditors. The external audit provides an independent assurance that the College continues to be managed effectively, spends public funds efficiently and complies with relevant legislation and regulations.
6. Azets presented the External Audit Annual Report 2021-22 to the Committee in November 2022. Members welcomed that the College had received an unqualified opinion on the financial statements, regularity and other prescribed matters. When presenting the report, Azets told the Committee that it was a good report for the College in difficult circumstances. Key messages in the report include:
 - **Financial Sustainability:** The College had adequate short and medium-term financial plans but faced significant challenges and uncertainties - aiming for long-term financial sustainability but predicting deficits until 2024/25 and a break-even position by 2026/27. Uncertainties like staff costs and inflation increase financial risks. Due to flat government funding and required savings, the College may need to cut its workforce by approximately 17% from 2022/23 to 2026/27. The current operating model may not be sustainable, potentially requiring reductions in activities and teaching methods to achieve strategic goals. A detailed capital plan for the £1.350 million 2022/23 budget was urgently recommended by Azets.
 - **Financial Management:** For the year ending 31 July 2022, the College reported an operating deficit of £4.196 million with an adjusted underlying deficit of £0.469 million. The cash position at 31 July was found to be significantly high at £14.987 million and

Azets encouraged a review of the College’s cash management controls to ensure that funds are only drawn down when they are needed.

- **Governance and Transparency:** The College’s governance arrangements were judged to be appropriate and effective throughout 2021-22. Azets were satisfied that the Board continued to receive sufficient and appropriate information to support effective and timely scrutiny and challenge. While sufficient progress had been made on external effectiveness review recommendations, Azets encouraged further work to implement them fully.
- **Value for Money:** Azets recognised that the College had 8 clear, consistent priorities outlined in the Strategic Plan 2021-30 and the ongoing work to develop a new balanced scorecard that incorporated a range of performance measures aligned against these strategic priorities. With 57 operational targets at the time of reporting, Azets encouraged the College to reduce the number of measures.

Internal Audit Reports

7. Internal audits are a valuable independent assessment and source of assurance of the College’s operational effectiveness. They help identify strengths, weaknesses and risks and these findings support continuous improvement across the College.
8. The College worked in partnership with Henderson Loggie to plan and conduct a programme of internal audits throughout the year and reported findings to the Committee. The recommendations are from internal audits graded low, medium or high from priority 1 – 3. Each audit is also graded with one of four overall levels of assurance which, from high to low, are: good; satisfactory; requires improvement; and unacceptable.
9. During 2022-23, 9 internal audits were undertaken in areas across the College and reported to the Committee. Of these, 6 of the internal audits were graded as “good”, the highest overall level of assurance, and 3 were graded as satisfactory. 20 low-level recommendations were made throughout the internal audits and accepted by the College’s management. No medium or high-level recommendations were made. Henderson Loggie and the College’s own Compliance Auditor monitor the implementation of recommendations and report on progress to the Committee throughout the year.

Internal Audit Report	Recommendation Level			Assurance Level
	High	Medium	Low	
Health and Safety	0	0	6	Satisfactory
Business Continuity	0	0	5	Good
Business Development & International	0	0	0	Good
Internal Communications	0	0	2	Satisfactory
Data Protection	0	0	2	Satisfactory
IT & Digital Strategy	0	0	0	Good
Environmental Sustainability	0	0	1	Good
Building Contract Management	0	0	2	Good
Planned Maintenance	0	0	2	Good
	0	0	20	

10. The Scottish Funding Council (SFC) require colleges to have the student activity data they submit in their Further Education Statistics (FES) return audited. Henderson Loggie conducted an internal audit of the 2021-22 and issued an independent opinion confirming the return complied with all relevant guidance and that adequate procedures were in place for accurate data collection and recording. They could, therefore, provide a reasonable assurance that the College’s return was free from material misstatements.

Assurance Framework

11. The Committee considered and approved an Assurance Framework developed by the College Secretary and the Compliance Auditor, K Acheson, in response to guidance from the Scottish Government's Audit & Assurance Handbook and following the recommendation from an external audit. The Assurance Framework is a comprehensive document that outlines the College's approach to governance, risk management, control and assurance, as well as the Three Lines of Defence model:
 - **Line 1 (Management Assurance):** Monitoring of the College's day-to-day operations and performance exercised by senior management.
 - **Line 2 (Oversight of Management):** Oversight of senior management and the College's activities undertaken regularly by the Board of Management and its committees, as well as internal audit.
 - **Line 3 (Independent/Objective Assurance):** Review of the College undertaken by external auditors, as well as other regulators and bodies, to ensure compliance with standards and regulations.
12. Members also noted that further work would be undertaken to develop the Assessment of Sources of Assurance and, once complete, it would be tabled for consideration bi-annually.

Risk Management

13. Members regularly reviewed the Strategic Risk Register and Management Action Plans (MAPs) for those risks within the remit of the Committee, recommending any changes to the Board for final approval.
14. The Committee also discussed an amendment to the score matrix, which was later approved by the Board in June 2023. Members noted that work would be undertaken over the summer to refresh the Strategic Risk Register and condense the MAPs.

Data Protection

15. The Depute Principal presented a gap analysis report, prepared by the Data Protection Officer (DPO), that provided members with oversight of current levels of data protection compliance across the College and identified areas where improvement is required. The Committee welcomed the progress made by the DPO. Members also noted that fewer data breaches were recorded in 2021-22 than in 2020-21, none of which required notification to the Information Commissioner's Office, and welcomed the procurement of a new General Data Protection Regulation training module for staff.

Freedom of Information

16. The Committee received an annual report on the requests submitted to, and handled by, the College under the Freedom of Information (Scotland) Act 2002 and the Environmental Information (Scotland) Regulations 2004. The College Secretary confirmed that 24 requests were received and 92% were responded to within the statutory 20-day timescale. Members noted that the 2 requests that were late were submitted to different email mailboxes and were not forwarded on to the correct mailbox until after the 20 working days had elapsed.

Ex-Employee Fraud

17. Members considered a report tabled by the Depute Principal on the lessons the College has learned from the ex-employee fraud case to assist other colleges in safeguarding against similar acts. The Committee approved the report to be shared with the Glasgow Colleges' Regional Board (GCRB) and the SFC for dissemination across the sector.
18. The Committee discussed the matter of the College taking steps to recover the funds fraudulently obtained. After considering legal advice, and discussing the financial risks, merits

and prospects of success, members agreed that their recommendation to the Board would be that the College take no further action. This was reported to the Board in June 2023.

Financial Memorandum Breach

19. In April 2023, the SFC notified the College that non-competitive procurement action breached the Financial Memorandum. Shortly after receiving this correspondence, the Principal apprised the Audit & Assurance Committee and Finance Committee. He also raised the matter with Henderson Loggie and requested that they conduct an audit and report on its findings. Due to the unique circumstances, to maintain independence and transparency, it was agreed that this investigation should be independent of the ELT and, instead, report directly to the Board.
20. In June 2023, the Committee received the internal audit report and considered it in a private session with Henderson Loggie before scheduling an additional meeting with the Principal and Vice Principal Corporate Development & Innovation. The internal audit identified three breaches of the Financial Memorandum and the report outlined five recommendations. The Principal offered an apology to the Committee and assured members that the ELT accepted the recommendations in full. The Vice Principal Corporate Development & Innovation confirmed that four of five recommendations were already being implemented. The Convener provided an update on the matter at the next meeting of the Board.
21. The Principal wrote to the SFC to outline the steps the College had taken since April 2023, apprise them of the outcome of the internal audit and seek retrospective approval. The SFC has since confirmed that retrospective approval has been granted.

Members' Attendance

22. The attendance of members of the Committee for this academic session, and the previous four academic years, is as follows:

Year	No. of Meetings	Possible Attendances	Actual Attendances	Percentage Attendance
2018-19	4	20	17	85%
2019-20	5	19	12	63%
2020-21	4	19	15	79%
2021-22	5	20	17	85%
2022-23	5	17	16	94%

Review

23. The Board of Management's committees review their Terms of Reference annually, recommending any changes to the Board for approval. This is an opportunity for members of the Committee to reflect on the purpose, remit, business, membership and meetings at the end of the academic year with the next session in mind. No material changes were requested by the Committee in 2022-23.