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AUDIT COMMITTEE REPORT

Subject: Annual Report of the Audit Committee	**Purpose:** **For Approval** ☒ **For Discussion** ☐ **For Information** ☐
Prepared by: Peter D Smith, Vice Principal – Finance and Resources	**Date:** 17 November 2017

Purpose: To approve the annual report of the Audit Committee to the Regional Board.

Linked to Strategic Goal 5: Build Sustainability.

Executive Summary:

Attached is the annual report of the Audit Committee to the Regional Board. The report incorporates the points agreed at the Committee meeting of 21 September 2017 and the reports of internal and external audit.

Executive Summary

The key points for the attention of the Regional Board are:

- **External Audit:** An unqualified audit report was issued on the financial statements of the College for the year ended 31 July 2017.
- **Internal Audit:** Internal auditors have concluded that the College has adequate and effective risk management, control and governance procedures, and that the College has proper arrangements to promote and secure value for money.
- **Fraud:** No instances of fraud or impropriety were brought to the attention of the Audit Committee during the period.
- **Audit Committee Conclusion:** It is the Committee's view that the responsibilities delegated to it from the Regional Board in accordance with the College's Administration Scheme have been satisfactorily discharged.

Recommendation: Committee to approve the contents of the report and its submission to the Regional Board.

Previous Committee Approvals: n/a

For publication ☒	**For publication with redactions** ☐	**Not for publication** ☐

BORDERS COLLEGE

Annual Report of the Audit Committee to the Regional Board - Activities Undertaken for the year ended 31 July 2017.

1.0 INTRODUCTION

1.1 Effective from 14th October 2008, current requirements for Audit and Accounting are incorporated in the Financial Memorandum issued by the Scottish Further and Higher Education Funding Council (SFC).

1.2 A revised Financial Memorandum was issued, effective 01 December 2014. This requires the preparation of an Annual Report from the Audit Committee to the Regional Board.

1.3 This report details the activities of the Audit Committee for the year 2016-17.

2.0 COMMITTEE CONSTITUTION AND TERMS OF REFERENCE

2.1 The following Committee members served during the year: -

S Ker (Chair)
I Ireland
B McGrath
A Fourie (resigned 13 March 2017)
J Martin (resigned 28 August 2017
K Armstrong (resigned 30 June 2017)
J McKenzie (appointed 22 June 2017)
E Smith (appointed 01 July 2017)
J Gaddie (appointed 26 October 2017)

2.2 The Terms of Reference for the Audit Committee were reviewed by the Regional Board at its meeting on 11 December 2014, taking into consideration recommendations from the January 2014 internal audit review of Corporate Governance, the Code of Good Governance for Scotland's Colleges and the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on terms of reference for audit committees. Agreed duties of the Audit Committee are as follows: -

- To advise the Regional Board on the appointment, reappointment, remuneration or removal of internal and external auditors;
- To review the processes and advise the Regional Board on the internal and external auditor's assessment of the College's financial and other internal control systems;
- To review and advise the Regional Board on compliance with corporate governance requirements and good practice guidance;
- Reviewing the scope, efficiency and effectiveness of the work of internal audit and advise the Regional Board thereon;
- To establish appropriate performance measures and indicators to monitor the effectiveness of external audit;

- To consider the College's annual financial statements and the external auditor's report after review by the Finance and General Purposes Committee and prior to submission to the Regional Board;
- To advise the Regional Board on relevant issues arising from the Audit Committee's consideration of internal audit, progress reports, annual reports and College Management's response thereto;
- To respond appropriately to any notification to the Audit Committee of fraud or other improprieties;
- To review the external auditor's Management letter and monitor Management's response;
- To advise the Regional Board on relevant issues arising from the external auditor's management letter, other external audit reports and College's Management's response thereto;
- To have access to and ensure attendance of external auditors at Audit Committee and Regional Board meetings as required;
- To advise the Regional Board of any potential conflict of interest following consideration of any non-statutory audit work;
- To ensure the College has effective arrangements for securing economic and efficient use of the College's resources and report to the Regional Board thereon and on the identification of potential topics for value for money reviews, having regard to national value for money studies in the further education sector;
- To produce and submit an annual report to the Regional Board;
- To review previously reported cases of impropriety to establish whether they have been handled appropriately;
- To note any updates of Register of Board Members' Interests;
- To note any updates of Register of Gifts.

3.0 INTERNAL AUDIT SERVICE

3.1 Following a competitive tendering exercise, Wylie & Bisset, Glasgow were appointed by the College to provide Internal Audit Services for the period 01 August 2012 to 31 July 2017, subject to annual reviews of performance. A letter of appointment was drawn up having regard to the SFC Code of Audit Practice issued on 1 August 2000. Subject to meeting performance standards, the contract allowed for a possible extension of up to two years and, at its meeting of 11 May 2017, the Committee agreed to exercise this extension to 31 July 2019.

3.2 The internal audit work carried out in the year was based on the College's Corporate Plan, Development Plan and Risk Register, and approved at the Audit Committee in September 2016. This plan has been systematically followed and the areas addressed in the year are: -

- Audit of FES Return 2015/16 (Credits Audit)
- Purchasing and Procurement (requested review)
- Payroll (requested review)
- Learning Support (requested review)
- Risk Management (requested review)
- Commercial Income Structure (requested review)
- Curriculum Planning (requested review)
- EMA Audit

- SSF Audit
- Follow-up on Previous Audit Recommendations (requested review)

3.3 Wylie & Bisset prepared a report on each review and these reports have been reviewed by the Committee. Action plans incorporated in the reports are reviewed at subsequent meetings.

3.4 The auditors have reported that: -

"We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes.

In our opinion Borders College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of our audit work. In our opinion, the College has proper arrangements to promote and secure value for money.

Our fieldwork was carried out between September 2016 and March 2017 and we have not undertaken any further internal audit assignments at the time of this report."

3.5 Summaries of the issues arising in relation to each system or activity covered by the internal audit work in 2016-2017 have been reported separately to the Audit Committee. All reports contained action plans detailing responsible officers and implementation dates. The reports were discussed and agreed with management prior to submission to the Audit Committee.

3.6 Recommendations made by Internal Audit during 2016-17 with a risk rated as medium or above are shown at **Appendix A.** Also shown at **Appendix B** are the current statuses of all uncompleted recommendations as at 23 November 2017.

3.7 In addition, the Internal Audit Service highlighted the existence of areas of good practice, particularly in relation to Curriculum Planning, Learning Support, Payroll, Purchasing and Procurement, and Risk Management.

3.8 Overall input to the audit assignments was 34 days, including those for the Student Support Funds and Education Maintenance Allowances, and Wylie & Bisset presented their Annual Report 2016-17 to the Audit Committee on 21 September 2017. A copy of that report is attached as **Appendix C**.

4.0 EXTERNAL AUDIT SERVICE

4.1 With effect from the 1 January 2002 Audit Scotland has been responsible for the audit of all Further Education Colleges in Scotland. External audit services for the financial year ended 31 July 2017 were provided by their appointees, Scott Moncrieff, Edinburgh. This was the first year of Scott Moncrieff's appointment term as external auditors, following a re-tendering exercise by Audit Scotland. The audit started in early October, as planned. The auditors presented their Annual Report to the College's Audit Committee on 23 November 2017. No audit report qualifications were necessary to the financial statements for the year to 31 July 2017. Their conclusions stated: -

"The College intends to approve the annual report and financial statements at their Board meeting on 7 December 2017. We intend to report within our independent auditor's report:

- *an unqualified opinion on the financial statements;*
- *an unqualified opinion on the regularity of expenditure and income; and*
- *an unqualified opinion on other prescribed matters.*

We are satisfied that there are no matters on which we are required to report by exception.

We have nothing to report in respect the use of the going concern basis of accounting in the preparation of the financial statements."

5.0 VALUE FOR MONEY

5.1 The College had an approved Procurement Strategy covering the period to 31 July 2017, and a Procurement Policy both of which encompass the principles of Value for Money assurance, including: -

- Collaborative Procurement
- Competitive Tendering
- Use of e-Procurement
- Contracts Register Maintenance
- Active Supplier Management
- Internal Audit Studies
- Performance and Practice Review

5.2 The former Procurement Capability Assessment (PCA) programme was replaced by the Procurement and Commercial Improvement Programme (PCIP) in 2016-17. Borders College falls below the threshold for taking part in this programme; but has undertook the Operational Procurement Review (OPR) with Advanced Procurement for Universities and Colleges (APUC). Outputs from the OPR are included in the College's Operational Procurement Action Plan.

5.3 The Committee has also received reports on the ongoing procurement practices in the College against measurable targets.

5.4 The Committee is content that, coupled with the value for money assignments undertaken by the internal audit service, these measures enable the College to demonstrate achievement of Value for Money in its activities.

6.0 FRAUD AND IMPROPRIETY

6.1 No instances of fraud or impropriety were brought to the Committee's attention during the year or in the period up to the approval of this report.

7.0 GOVERNANCE

7.1 The Committee received updates to the Registers of Members Interests and Gifts in accordance with its Terms of Reference.

8.0 SELF-EVALUATION

8.1 The Regional Board commissioned an independent evaluation of its performance during 2016/17, reporting on the outcome to the SFC and Scottish Government. The report found significant strengths in the Board's operation and provided useful pointers for further improvement. The Board used the report to set its own action plan for improvement against which it is monitoring its performance. It has also developed its own self-evaluation toolkit based on the Code of Good Governance which it will use in 2017/18 to further evaluate its performance..

9.0 CONCLUSIONS

9.1 The activities of external and internal audit have indicated that satisfactory control exists within the College in all primary control areas. Operational responsibilities have been met and statutory responsibilities met.

9.2 The Audit Committee is satisfied that acceptable arrangements are in place to promote economy, efficiency and effectiveness within the College.

9.3 The Audit Committee has considered the adequacy and effectiveness of the College's Internal Control Systems on the basis of audit work performed during the year. The Audit Committee is satisfied that adequate and effective internal control systems are in operation within Borders College.

9.4 The various reports and Committee minutes have been circulated to Board members.

It is the Committee's view that the responsibilities delegated to it from the Regional Board in accordance with the College's Administration Scheme have been satisfactorily discharged.

Signed ……

Steven Ker, Chair

Date: 23 November 2017

APPENDIX A – AUDIT RECOMMENDATIONS RANKED MEDIUM OR HIGHER

Report	Recommendation	Status as at November 2016
Audit of FES Return 2015-16	none	n/a
Purchasing and Procurement	We recommend that the College monitor the performance of contracted suppliers to ensure they are receiving the level of service set out in the terms of the contract. MEDIUM RATING	**Agreed.** This task forms part of the Procurement Officer's role and, now that initial training has been completed, will be part of her supplier management activity. This will cover local contracts. For Framework Agreement contracts, we expect APUC to lead on supplier management. ONGOING action 2017-18
Payroll	We recommend that the HR Department notify IT of staff leaving dates before or on the day of a staff member's employment being terminated so the system access can be closed appropriately. If ISLT are notified in advance of the employees last working day, they can program the system to ensure that the employees access is stopped on that day. MEDIUM RATING	**Agreed.** A process has already been put in place to notify ISLT as soon as a leaver is identified. COMPLETED March 2017
Learning Support	none	n/a
Risk Management	none	n/a
Commercial Income Structure	none	n/a
Curriculum Planning	We recommend that the College look to implement the timetabling planning software currently being reviewed.	**Agreed.** The College is currently investigating options for central timetabling Software, with the intention that this be implemented for 2017-18 Academic Year. COMPLETED July 2017
EMA Audit	none	n/a
SSF Audit	none	n/a

APPENDIX A – AUDIT RECOMMENDATIONS RANKED MEDIUM OR HIGHER