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REGIONAL BOARD REPORT

Subject: Report from the Audit Committee	**Purpose:** **For Approval** ☐ **For Discussion** ☐ **For Information** ☒
Prepared by: Bryan McGrath / Paul Scrimger	**Date:** 25 November 2019

Purpose:
To present the annual report for the period 1 August 2018 – 31 July 2019.

Linked to Strategic Goal 5: Build Sustainability.

Executive Summary:

The draft annual report of the Audit Committee of activities undertaken for the year ended 31 July 2019 is attached. The highlighted areas await completion of the accounts and confirmation from the external auditors.

A verbal account of the meeting held on 21 November 2019 will be provided.

Recommendation:
Board members are requested to consider the paper and put forward any comments.

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For publication ☒	**For publication with redactions** ☐	**Not for publication** ☐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 2019

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 2018-19.

2.0 COMMITTEE CONSTITUTION AND TERMS OF REFERENCE

2.1 The following Committee members served during the year 01 August 2018 to 31 July 2019 and up to the date of signing this report: -

S Ker	(Chair to 7 February 2019)
B McGrath	(Interim Chair from 16 May 2019 to 24 Oct 2019)
P Scrimger	(from 16 May 2019, Chair from 24 Oct 2019)
J Gaddie	
I Ireland	(resigned 28 February 2019)
D Jardine	(ended on 18 June 2019)
A Letham	(from 20 June 2019)
J MacKenzie	

2.2 In October 2017 the current Terms of Reference were extended by the Audit Committee to reflect the terms of the Code of Good Governance for Scotland's Colleges referring to the Audit Committee. The Terms were then approved by the Board in December 2017 subject to two further changes being made which changes were subsequently agreed by the Audit Committee. The current agreed duties of the Audit Committee are as follows:

- To make a recommendation to the Regional Board on the appointment, reappointment, remuneration or removal of the internal auditors;

- To advise the Regional Board of the process for the appointment of the external auditor (currently appointed by Audit Scotland) its remuneration and of any issues relating to the role of the external auditor.

- 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 promptly pursue recommendations arising from audit reports and monitor their implementation.

- 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 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 Strategic Plan, Annual Priorities and Risk Register, and approved at the Audit Committee in September 2019. This plan has been systematically followed, and the areas addressed in the year were:

- Audit of FES Return (Credits Audit) (required)
- IT systems (requested review)
- Payroll (requested review)
- Student Activity – Enrolments and Withdrawals (requested review)
- EMA Audit (required)
- SSF Audit (required)
- 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 internal 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, based on the areas of work we reviewed and our cyclical risk based plan. In our opinion, the College has proper arrangements to promote and secure value for money. We have however raised a weak level of assurance around the IT Systems arrangements in place which management have accepted and are taking steps to address the two high grade recommendations raised and we will follow up on these recommendations in 2019-2020."

3.5 Summaries of the issues arising in relation to each system or activity covered by the internal audit work in 2018-2019 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 2018-19 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 03 September 2019.

3.7 In addition, the Internal Audit Service highlighted the existence of areas of good practice across all areas reviewed.

3.8 Overall input to the audit assignments was 22 days, including those for the Student Support Funds and Education Maintenance Allowances, and Wylie & Bisset presented their Annual Report 2018-19 to the Audit Committee on 26 September 2019. A copy of that report is attached as **Appendix C**.

4.0 EXTERNAL AUDIT SERVICE

4.1 With effect from 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 2019 were provided by their appointees, Scott Moncrieff, Edinburgh. This was the third year of Scott Moncrieff's appointment term as external auditors, following a re-tendering exercise by Audit Scotland. The audit started in mid October, as planned. The auditors presented their Annual Report to the College's Audit Committee on 21 November 2019. No audit report qualifications were necessary to the financial statements for the year to 31 July 2019. Their conclusions stated:

Opinion on financial statements

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2018 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the college has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinions on other matters prescribed by the Auditor General for Scotland

In our opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

Matters on which we are required to report by exception

We are required by The Charities Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

5.0 VALUE FOR MONEY

5.1 The College had an approved Procurement Strategy covering the period to 31 July 2019, 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 engaged with 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.

6.2 The Anti-Fraud Policy and Anti Bribery Policy were both reviewed during the year and recommended changes were made.

6.3 The College participated in the National Fraud Initiative 2018 with no material findings. Some changes were made to invoice processing as a result of examining the VAT matches. The Audit Committee received a report on the activities undertaken.

7.0 GOVERNANCE

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

8.0 SELF-EVALUATION

8.1 The Board is required under the Code of Good Governance for Scotland's Colleges to keep its effectiveness under annual review and to have in place a robust self-evaluation process.

8.2 For the year July 2018-June 2019 the Board agreed that in light of the extensive nature of the review carried out in the preceding year, a questionnaire based format would be proportionate for the year 2018-19. The headings within the questionnaire reflect the key principles of governance contained in the Code and accordingly relate to the key Principles of Leadership and Strategy / Quality of the Student Experience / Accountability / Effectiveness / Relationships and Collaboration. The questions related to the broader picture behind each Principle rather than seeking a detailed response to each point within a Principle. Questionnaires were sent to Board members during the relevant period.

8.3 The results of this questionnaire have been analysed and will be [have been] reported to the Board. Any development actions identified from the results will be used to prepare a Board development plan which will also include any ongoing matters from the previous development plan.

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.

Paul Scrimger, Chair

Bryan McGrath, Interim Chair

Date: 21 November 2019

APPENDIX A – AUDIT RECOMMENDATIONS RANKED MEDIUM OR HIGHER

Borders College Internal Audit Monitoring Action Plan **26/08/2019**

AUDIT YEAR	REPORT	RECOMMENDATION	GRADE	DUE DATE AGREED WITH AUDIT	STATUS	OUTSTANDING ACTIONS AUGUST 2019	REVISED DATE
2019	Payroll	We recommend that the college considers the possibility of implementng a digital timesheet processing system	Medium	31/08/2019	A	A paper has been prepared for SLT to consider the processing issues arising from this proposed system development. It is recommended that software improvements are required and should be explored before proposing an implementation plan. Electronic travel expenses processing will be introduced now.	31/10/2019
2019	IT systems	We recommend that the College puts stronger controls in place and looks at locking down all forms of removable, and cloud-based storage that is not required to be accessed. Controls could be put in place by utilising Group Policy to lock down removable media and web filtering software to block access to cloud storage systems.	High	31/08/2019	A	Reiterated to staff the need to contact ISLT to obtain an encrypted drive. ISLT is working to implement a new Identity Management System along with integration to Office 365 for staff email and file storage. Once complete (delayed due to procurement and now planned for October) we can promote Office 365's One Drive functionality reducing the requirement for removable drives. This will not eliminate the risk and SLT have supported a hard line on this. We will consider the option of locking all USB ports on user devices.	30/11/2019
		We also recommend that the College look to monitor Office 365 for sensitive data across the Office 365 suite utilising the built-in technology that comes with Office 365.					
		We also recommend that the College investigate looking at software to monitor for Sensitive/ Personal/ confidential information for example Zonefox.				We will discuss options for this with our Data Protection Officer.	
2019	IT systems	We recommend that the College implement a system that can protect all networks from accessing inappropriate websites and can protect against known bad websites and malware.	High	31/08/2019	R	Our current web filtering solution provides this functionality however only for the wired and staff wireless network (this was testing during our recent Cyber Essentials Plus accreditation). This will also be a requirement for any new solution we implement. We are currently waiting on submissions from a tender exercise to identify the preferred solution for our full network. This is planned for installation (Subject to funding) in October (why delayed)	31/10/2019
2019	IT systems	We recommend hat patching strategies are put in place to ensure that applications and operating systems are updated in a timely fashion when fixes are released.	Medium	30/06/2019	A	All our servers are fully updated in relation to security patches and bug fixes and have achieved Cyber Essentials Plus Accrediation (in August). We are currently developing an automated patching solution to ensure we make remain compliant for Cyber Essentials Plus.	30/09/2019
		We also recommend that the College investigate utilising SCCM to see if the software can patch the non-Microsoft Products. If this cannot be done then look for a third party solution to achieve this, for example PDQ Deploy, Chocolatey, BathPatc			B	We recently implemented PDQ to ensure our third party desktop applications are fully updated. We also reduced the standard application list for our laptop/desktop build to reduce further risk.	
2019	IT systems	We recommend that the College implement a disaster recovery testing process and all testing is documented. Any issues found that would affect the IT DR Plan should feedback into the IT DR Plan.	Medium	31/10/2019	G	Formal disaster recovery documentation and testing schedule to be implemented by end of September	