

# AUDIT COMMITTEE REPORT

<b>Subject:</b> Monitoring Internal & External Audit Follow Up	<b>Purpose:</b> <b>For Approval</b> <input type="checkbox"/> <b>For Discussion</b> <input type="checkbox"/> <b>For Information</b> <input checked="" type="checkbox"/>	
<b>Prepared by:</b> Hazel Robertson – VP Finance & Corporate Services	<b>Date:</b> 27 January 2022	
<b>Purpose:</b> To receive monitoring information on the status of implementation of audit action points.		
<b>Linked to Strategic Ambition:</b> Take a leading role in enabling an inclusive, resilient and sustainable Scotland  <b>Performance Measures:</b> Recognise nationally as a progressive organisation		
<b>Linked to Strategic Risk Register:</b> 3b - Internal Financial Procedures  <b>New Risk Commentary:</b> N/A		
<b>Executive Summary:</b>  The attached report provides detail on the outstanding actions from internal and external audit review. The Audit Committee should promptly pursue recommendations arising from audit reports and monitor their implementation.  Actions marked for closure in the last report have been removed.  All of the outstanding Internal Audit actions are low priority.  We have been unable to provide sufficient evidence that we have addressed previous years External Audit recommendations. The actions classed as a significant deficiency are our highest priority areas to address: asset management controls, accounting treatment and impairment review.		
<b>Recommendation:</b> Members review and seek clarification of any aspect.		
<b>Previous Committee Approvals:</b> n/a		
For publication <input checked="" type="checkbox"/>	For publication with redactions <input type="checkbox"/>	Not for publication <input type="checkbox"/>

## **Review of Audit Action Plan - February 2022**

The format of this report reflects the discussion at the last committee in relation to reporting on low risks and changes to timescales.

### **Requirements of a reporting process**

The report is to provide assurance to the Committee that agreed actions are being implemented effectively and timeously.

The internal follow up action and monitoring approach should have regard to the priority rating applied by the auditors. Both internal and external audit will verify progress as part of their annual plans.

There is no requirement in either our financial regulations or the Audit Committee terms of reference for changes to dates to be approved by the Audit Committee. The Audit Committee should promptly pursue recommendations arising from audit reports and monitor their implementation.

### **Internal Audit system**

Our internal auditors priority rating system is as follows.

Overall report conclusion:

Level	Description
Strong	Controls satisfactory, no major weaknesses found, no or only minor recommendations
Substantial	Controls largely satisfactory, although some weaknesses identified, recommendations for improvement made
Weak	Controls unsatisfactory and major system weaknesses identified that require to be addressed immediately
No	No or very limited controls in place leaving the system open to significant error or abuse, recommendations made require to be implemented immediately

Action points prioritisation

High	Major weaknesses that we consider needs to be brought to the attention of the Audit Committee and addressed by senior management of the College as a matter of urgency.
Medium	Significant issue or weakness which should be addressed by the College as soon as possible.
Low	Minor issue or weakness reported where management may wish to consider our recommendation

Key points from Internal Audit action list

Significant Updates	Revised date and reason
IT Disaster Recovery testing. We are in a strong position on this as all servers have been migrated to the Cloud, significantly enhancing capacity and functionality around backups and DR. We have implemented O365 backups.	We have agreed a test date in the Easter holidays as there will be an operational impact from down time during the test process.

Finance procedure manual. No material deficiencies in process have been identified through internal audit work. Many processes may not be able to change due to system deficiencies. We are prioritising an integrated replacement finance solution through the Digital Transformation Programme.	No change. We are committed to completing this review by end March to meet Internal Audit deadlines.
EMA: an additional staff member has been trained.	Close this action.

### **External audit system**

The external audit rating system is shown below:

Risk Rating
Significant deficiency
Other deficiency
Other observation

The monitoring report for external audit is attached.

Significant Updates	Revised date and reason
A significant amount of energy has been deployed on review of fixed asset procedures and accounting. This work is not yet complete however we are committed to completing this by end March in so far as this is possible. The ability to undertake asset verification may be compromised by ongoing Covid restrictions.	No revised dates although note issues around asset verification

### **Conclusion**

As reported to the last meeting, we are in a good position to anticipate significant progress on the issues raised by external audit by the time of next years audit.

We have addressed the concerns relating to sickness absence as reported to the last Audit Committee.

One low priority internal audit action has a date extension due to the need to minimise the impact on operational activity.

**APPENDIX A    Internal Audit recommendations progress report**

**Internal Audit Action Follow Up - Summary Report**

**27 January 2022**

<b>Report date</b>	<b>Report</b>	<b>Conclusion</b>	<b>H actions</b>	<b>Complete</b>	<b>M actions</b>	<b>Complete</b>	<b>Open H/M</b>	<b>L open actions</b>	<b>Benchmarking</b>
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**Audit programme**

Sep-21	EMA		-		-		-	-	n/a
Sep-21	Credits		-		-		-	-	n/a
Sep-21	Student support funds						-	-	1
Sep-21	Value For Money	Substantial	-		2	2	-	-	n/a
May-21	Follow up	Strong	-		-		-	1	n/a
Feb-21	Purchasing and procurement	Substantial	-		-	-	-	2	n/a
Feb-21	MIS	Strong	-		-	-	-	-	4
			-		-		-	-	n/a
			-	-	2	2	-	3	4

Borders College Internal Audit Monitoring Action Plan						27 January 2022			
AUDIT YEAR	REPORT	ORIGINAL RECOMMENDATION	GRADE	RESPONSIBLE PERSON	DUE DATE AGREED WITH AUDIT	STATUS	OUTSTANDING ACTIONS JANUARY 2022	POSITION AS AT 2021 AUDIT F/U REVIEW	REVISED DATE
2021	Education Maintenance Allowance	We recommend that the College ensure that Engagement Reports are provided to the Student Funding Team for all EMA payment runs. We also recommend that the College consider training another staff member to check and process payments.	Low	Funding Manager	28/02/2022	B	An additional member of staff has been trained to access and check engagement reports and process payments. Close this action.	n/a	n/a
2021	Value for Money	We recommend that the College develop a procedure document to outline the processes and procedures that should be adhered to when developing the Budget Control Spreadsheet.	Low	VP F&CS	31/03/2022	G	Date is in line with timescale for procedural review.	n/a	n/a
2019	IT SYSTEMS	We recommend that the College undertake testing of the IT Disaster Recovery Plan once staff members have returned to the College.	Low	Head of ISLT		A	Because the full test will require down time on our systems we have time shifted this to the Easter break when this will have minimal impact on day to day operations. Committee asked to support rationale for change in date.	A draft DR plan has been prepared for approval, testing to follow. This will be updated when we migrate our servers and our data to a data centre cloud solution, expected to be completed before the next financial year.	30/04/2022
2018	Budgetary Control	Financial Procedures Manual - We recommend that following the upgrade to the finance system the College continue to review and update the finance procedures manual	Low	Finance Business Partner	31/07/2018	A	The transformation process has commenced with creditors payments and showing positive results. All procedures will be reviewed by end March. Focus will continue to be on transformative change, where possible within existing system constraints. Committee asked to note that transformative change will require complete replacement of finance system. End to end P2P processes are a good example of where system change is required. This is currently a priority project in Digital Transformation Programme.	Procedures are planned for a overhaul following the next external audit, and internal auditors propose to review work in March 2022	31/03/2022

## APPENDIX B

### External audit recommendations progress report

Borders College External Audit Monitoring Action Plan					27 January 2022			
REF	TOPIC	RECOMMENDATION	GRADE	RESPONSIBLE PERSON	DUE DATE AGREED WITH AUDIT	STATUS	OUTSTANDING ACTIONS JANUARY 2022	POSITION AS AT 2021 AUDIT REVIEW
1	Revaluation reserve records	Asset registers should be updated to record and maintain the revaluation reserve balance against each individual asset where appropriate.	Other deficiency	Finance Business Partner	31/03/2022	A	We consider the information to be available within the working papers and will review treatment of this for the 2022 accounts.	The asset register has not been updated to record the revaluation reserve balance held against each individual asset.
2	Asset Management controls	Management should perform a full review of the asset register to ensure that; Asset descriptions are specific and include location, quantity and make/model All assets listed on the register are still in use and can be physically verified Information is consistent with other registers held across the College Reconciliations and verification exercises should be performed at least annually to provide assurance over accuracy. Disposal controls and the established process should be reiterated to all staff and management should follow up on any disposals that cannot be mapped to the asset register.	Significant deficiency	Finance Business Partner	31/03/2022	A	<b>Our review work on fixed asset controls and accounting treatment continues and is a priority to complete by end March.</b> Significant work has been undertaken on the asset register and matching with deferred capital grants. Asset controls are in place but have not been working effectively. They will be strengthened and a verification exercise if possible under hybrid working.	Asset verification was not completed in 2020/21, with the planned exercise impacted by COVID-19. The implementation of the change in accounting policy resulted in a thorough review of the asset register to ensure the appropriate assets were removed. However, robust management controls are still required over transient assets such as IT equipment. Further work is required to establish and document asset management controls including regular verification and robust disposal controls. Management intend to develop an asset management policy in 2021/22 to address this recommendation.
3	Journal review	While our audit review in respect of the 2017/18 financial year did not identify any indications of incorrect or fraudulent journal postings, we recommend that the College reviews approval processes to ensure all manual journals are appropriately reviewed and authorised. Additionally the College should ensure processes are consistent with the financial procedures manual.	Other deficiency	Finance Business Partner	31/03/2022	A	All journals are reviewed and signed. It remains <b>our plan</b> to review procedures by end March	Procedures will be reviewed by management in 2021/22 and considered by internal audit in March 2022. Our journal testing in 2020/21 did not identify any indication of incorrect or fraudulent postings.
4	Year End Preparedness	The College should ensure that a timetable is in place for year-end close down of the ledger and preparation of the financial statements. This should also aid in sufficient time being allocated to ensure all disclosures are in line with best practice.	Other deficiency	Finance Business Partner	31/07/2022	A	The audit process was in our opinion significantly improved (quality and time) on last year and previous years. We will work to ensure that these issues will not recur into next year.	Whilst the College was supportive and engaging throughout the remote audit process, there were delays in providing a complete set of draft accounts and a high number of disclosure changes identified. We continued to work closely with management, including the new senior finance team, to ensure deadlines were met.
5	Impairment Review	While additional audit work was performed and did not identify any issues which would indicate that the College's land and buildings are valued incorrectly, the College should ensure that a review is conducted in the interim years between valuations. This review should be documented with clear consideration of the factors likely to impact the property and land value	Significant deficiency	Assistant Principal Finance	31/07/2022	A	The College is satisfied there is no indication of impairment, and no intention to dispose or acquire land and buildings. There is not consistency of approach across Scotlands Colleges, and this is being discussed with SFC and Audit Scotland.	Based on additional audit procedures to obtain sufficient audit evidence, we are satisfied that there is no indication of impairment that would indicate the College's assets are valued incorrectly. However, we continue to encourage the College to strengthen and formalise their annual impairment assessment. This should include consideration of the condition of each asset and any material changes in year. Management should obtain assurance from the relevant asset owners where appropriate to inform their assessment.