

Audit and Assurance Committee Meeting

Date of Meeting	Thursday 3 December 2020
Paper Title	Internal Audit Report – Risk Management
Agenda Item	9
Paper Number	AAC3-E
Responsible Officer	Jim Godfrey, Finance & Resources Director
Status	Disclosable
Action	For discussion

1. Report Purpose

1.1. To consider the Internal Audit Report on Risk Management.

2. Recommendations

2.1. The Committee is invited to **discuss** the Internal Audit Report on Risk Management.

3. Internal Audit Progress Report

3.1. This report provides an overview of the progress that has been made in exploring opportunities for developing GCRB's approach to risk management.

4. Risk Analysis

4.1. The work of the Internal Auditor is informed by an assessment of risk. The prompt implementation of the actions, in response to the audit recommendations, will enable GCRB to reduce the risks relating to compliance with the Financial Memorandum.

5. Equalities Implications

5.1. There are no equalities implications as a result of the recommendation in this report.

6. Legal Implications

6.1. There are no specific legal implications arising from this report.

7. Resource Implications

7.1. The provision of internal audit is a necessary component of an organisation's overall governance arrangement with regard to both financial and other matters.

8. Strategic Plan Implications

8.1. Through the Regional Outcome Agreement and associated requirements, GCRB has to have effective governance arrangements, of which internal audit is part.

Glasgow Colleges Regional Board

Risk Management

Internal Audit Report No: 2020/05

Draft issued: 25 November 2020

Final issued: 25 November 2020

LEVEL OF ASSURANCE

Satisfactory

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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

Satisfactory

System meets control objectives with some weaknesses present.

Risk Assessment

This review has covered the risk that the Glasgow Colleges Regional Board ('GCRB') risk management framework, and the practical application of this framework, is inadequate which could lead to risks not being identified and adequate mitigating activities not being put in place.

Background

As part of the Internal Audit programme at the GCRB for 2019/20 we carried out a review of the processes in place to identify and manage the risks facing the organisation. The Annual Plan for 2019/20, agreed with management and the Audit and Assurance Committee in October 2019, identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Executive Director and the Audit and Assurance Committee that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

The Scottish Public Finance Manual requires that public sector organisation's internal control systems should include embedded arrangements for identifying, assessing, and managing risks, with risk management closely linked to the business planning process. It requires that the Board makes a considered choice about its desired risk profile, taking account of its legal obligations, ministers' policy decisions, its business objectives, and public expectations of what it should deliver.

Good risk management includes a range of matters including:

- Creating a formal risk management framework, including identifying risk appetite;
- Risk identification;
- Risk assessment (likelihood and impact);
- Risk mitigation;
- Risk reporting and escalation; and
- Risk review and feedback.

Risk Management

Scope, Objectives and Overall Findings

The scope of this audit was to build on the previous work conducted in this area. We have reviewed the arrangements for the oversight and monitoring of mitigating actions associated with regional risks which are managed at operational / College level and the mechanisms for escalating and deescalating risks to/from the GCRB strategic risk register.

The table below notes the objectives for this review and records the results:

Objective	Findings			
The specific objectives of this audit were to ensure that:	1	2	3	
1. There is a process in place to provide reasonable assurance to the Board and to the Director in relation to the declaration on risk required for the financial statements	Satisfactory	0	0	1
2. The process in place applies good practice in risk management	Satisfactory	0	0	2
3. Key risks have been identified and are being appropriately controlled, mitigated, reported and discussed at appropriate levels of management and the Board	Satisfactory	0	0	1
Overall Level of Assurance	Satisfactory	0	0	4 System meets control objectives with some weaknesses present

Audit Approach

We obtained and reviewed a copy of GCRB's Risk Management Guidance; the Risk Management Policy and Procedure; and the Strategic Risk Register and discussed the risk management arrangements in place with the Finance and Resources Director. GCRB's risk management arrangements were then benchmarked against relevant good practice guidance. We also considered whether key risks associated with the delivery of GCRB's strategic objectives had been identified and included on the Risk Register and ensured that these were being monitored and adequately reported on.

Risk Management

Summary of Main Findings

Strengths

- There is a risk management framework in place including: A Risk Management Policy and Procedure; Risk Management Guidance; and a Strategic Risk Register;
- Responsibility for the oversight of the risks facing GCRB is aligned to the Board and the strategic Risk Register is presented to each meeting of the GCRB Board for consideration and discussion;
- Each meeting of the Audit and Assurance Committee reviews the risks identified by the three assigned colleges in the Glasgow Region in order to identify emerging risks for the region and to review the way in which risks are being managed at college level;
- The Strategic Risk Register is presented to each meeting of the Board, which provides Board members with the opportunity to challenge management on the strategic risks identified; their assessment of these risks in terms of relative priority (taking into account the residual risk position against the Board's risk appetite); and the mitigating actions and controls which have been put in place to manage these risks; and
- From our review of the risk management framework it exhibited most aspects of good practice.

Weaknesses

- The statement contained in the Annual Report and Consolidated Statements around the remit of the Audit and Assurance Committee is silent on the work which the Audit and Assurance Committee conducts in terms of reviewing the risks identified by each of the three assigned Colleges and the steps taken to manage these risks;
- The current reporting of risks to the Board does not contain any narrative to highlight the specific risks on the Strategic Risk Register where the residual risk level is above the agreed risk appetite;
- The current reporting format does not align responsibility for the individual controls and mitigating actions to named individuals and timelines are not attached to any mitigating actions in order to focus management attention and to aid monitoring; and
- The work to review the Strategic Plan for GCRB will require a reassessment of the risk appetite of the Board to react to the changing priorities which will develop as the strategic planning process unfolds during 2021.

Acknowledgements

We would like to take this opportunity to thank the staff at the GCRB and each of the Glasgow Colleges who helped us during our audit.

Main Findings and Action Plan

Objective 1: There is a process in place to provide reasonable assurance to the Board and to the Director in relation to the declaration on risk required for the financial statements

The Annual Report and Consolidated Statements for 2018/19 set out the key issues and risks facing GCRB and explains that the risk register contains the mitigating measures put in place to manage these risks.

Within the Governance Statement in the Annual Report and Consolidated Statements for 2018/19 it is made clear that the remit of the Audit and Assurance Committee includes a requirement to advise the Board on “the strategic processes for risk, control and governance and the governance statement”.

The Annual Report and Consolidated Statements for 2018/19 also contains a section which describes the key principles within GCRB’s Risk Management Guidance and Risk Management Policy and Procedures, which underpin the way in which risks are identified and managed.

The Strategic Risk Register is presented to each meeting of the Board, which provides Board members with the opportunity to challenge management on the strategic risks identified; their assessment of these risks in terms of relative priority (taking into account the residual risk position against the Board’s risk appetite); and the mitigating actions and controls which have been put in place to manage these risks.

Risk Management

Objective 1: There is a process in place to provide reasonable assurance to the Board and to the Director in relation to the declaration on risk required for the financial statements (continued)

Observation	Risk	Recommendation	Management Response		
<p>The statement contained in the Annual Report and Consolidated Statements around the remit of the Audit and Assurance Committee is silent on the work which the Audit and Assurance Committee conducts in terms of reviewing the risks identified by each of the three assigned Colleges and the steps taken to manage these risks. This is an important feature of the work of the Audit and Assurance Committee in providing an overview of emerging risks across the region. Therefore, the role of the Audit and Assurance Committee in monitoring risks at college level should be formally reflected within the remit of the Committee as described within the Annual Report and Consolidated Statements.</p>	<p>The work of the Audit and Assurance Committee in overseeing risks at college level across the Glasgow Region may not be adequately reflected within the consolidated financial statements.</p>	<p>R1 The role and remit of the Audit and Assurance Committee should be reviewed to ensure that it properly articulates the role of the Committee in overseeing the risks identified by the three assigned Colleges and the way in which these deliberations should feed into the Board discussions around risk. These responsibilities should also be reflected in the assurances provided around the risk management arrangements, and specifically the description of remit of the Audit and Assurance Committee in relation to risk management, contained within the Annual Report and Consolidated Statements and should be reflected in the next iteration of the Risk Management Policy and Procedure.</p>	<p>The role and remit of the Audit and Assurance Committee will be reviewed.</p> <p>To be actioned by: Board Secretary</p> <p>No later than: 25 January 2021</p> <p>The Annual Report will be revised.</p> <p>To be actioned by: Finance & Resources Director</p> <p>No later than: 25 January 2021</p> <p>The Risk Management Policy and Procedure will be revised.</p> <p>To be actioned by: Finance & Resources Director</p> <p>No later than: 30 June 2021</p>		
			<table border="1"> <tr> <td>Grade</td> <td>3</td> </tr> </table>	Grade	3
Grade	3				

Risk Management

Objective 2: The process in place applies good practice in risk management (continued)

The process described in the Risk Management Guidance and the Risk Management Policy and Procedures demonstrates many of the features of recognised good practice in risk management and is based on a standard risk identification, scoring and reporting model adopted by many public sector bodies. However, some aspects described in the current Risk Management Guidance are not currently reflected in the reporting of risk management to the Audit and Assurance Committee or to the Board.

Observation	Risk	Recommendation	Management Response		
The latest iteration of the Risk Management Policy and Procedure, last updated in June 2020, sets out the risk appetite for each of the identified risk categories. However, the current reporting of risks to the Board does not contain any narrative to highlight the specific risks on the Strategic Risk Register where the residual risk level is above the agreed risk appetite.	The discussion at the board may not be focused on the residual risks which are assessed as being above the agreed risk appetite levels.	R2 The covering paper prepared to accompany the Strategic Risk Register should be adapted to signpost Board members to any risks where the residual risk level exceeds the agreed risk appetite level.	Agreed. The covering paper will be amended to incorporate this recommendation. To be actioned by: Executive Director No later than: 25 January 2021		
			<table border="1"> <tr> <td>Grade</td> <td>3</td> </tr> </table>	Grade	3
Grade	3				

Risk Management

Objective 2: The process in place applies good practice in risk management (continued)

The latest iteration of the Risk Management Guidance, last updated in June 2020, sets out the five risk management treatments which could be adopted, namely: mitigate, avoid, transfer, share and accept. However, these categories do not feature in the current reporting of risk to the Board. We have been advised that work is ongoing to explore the possibility of introducing risk management action plans which would be prepared for each risk on the strategic risk register and provide the level of granular detail which is currently not made available through the reporting around the Strategic Risk Register. The development of these risk management action plans would allow the risk management treatments outlined in the Risk Management Guidance to be linked effectively to risk reporting going forward.

Observation	Risk	Recommendation	Management Response		
The current Strategic Risk Register contains the details on mitigating actions and controls and aligns the responsibility for each strategic risk to a named risk owner. As a natural progression from this reporting format we would suggest that the individual controls and mitigating actions could be aligned to named individuals and timelines attached to any mitigating actions in order to focus management attention and to aid monitoring of the way in which risks are being managed at both an executive and at Board level.	It may not be clear when a mitigating action is due to be completed or who has responsibility for completing the action.	R3 As part of the ongoing work to develop Risk management action Plans consideration should be given to identifying specific timelines for the completion of mitigating actions or treatments and these should be aligned to a named individual to improve accountability.	Agreed. The recommendation will be reflected in the development of Risk Management Action Plans. To be actioned by: Finance & Resources Director No later than: 30 June 2021		
			<table border="1"> <tr> <td>Grade</td> <td>3</td> </tr> </table>	Grade	3
Grade	3				

Risk Management

Objective 3: Key risks have been identified and are being appropriately controlled, mitigated, reported and discussed at appropriate levels of management and the Board

The risks on the Strategic Risk Register have been aligned to the strategic vision set out in the overarching Strategic Plan and therefore the risks captured on the Strategic Risk Register have remained largely static since 2017 when these strategic priorities were agreed by the Board.

The Risk Management Policy and Procedure sets out the responsibilities of the Executive Team, the Audit and Assurance Committee and the Board in relation to risks management with the ultimate responsibility for overseeing risks resting with the board.

The Executive Team discharges its responsibilities around risk management through regular discussion around current and emerging risks. This includes escalation of merging or changed risks to the Board as part of the routine reporting on the Strategic Risk Register.

The Audit and Assurance Committee discharges its responsibilities around oversight of risk management processes through regular review of the Risk Management Guidance and the Risk Management Policy and Procedure. As highlighted under Objective 1, above, the work which the Audit and Assurance Committee conducts in reviewing the risks identified by the three assigned colleges is not showcased in the current guidance or policy framework. In addition, the way in which the Audit and Assurance Committee articulates these risks to the Board, in order to inform the discussion around the Strategic Risk register, is not currently explained in the formal risk management policy or guidance framework.

Our review of the current strategic risk Register demonstrates a clear and deliberate alignment with strategic priorities set out in the Strategic Plan. The Board maintains oversight of the Strategic Risk Register at every meeting but as highlighted under Objective 2, above, the strategic direction of GCRB will be examined in the next year to arrive at the future strategic direction for the Glasgow region. Therefore, the content of the strategic risk register will require careful consideration once the deliberations around the future strategic direction of college education in the Glasgow Region, and beyond, have been concluded.

Risk Management

Objective 3: Key risks have been identified and are being appropriately controlled, mitigated, reported and discussed at appropriate levels of management and the Board (continued)

Observation	Risk	Recommendation	Management Response
The Annual Report and Consolidated Statements references the work which has been carried out to assess the risk appetite of the Board. However, the work to review the Strategic Plan for GCRB will require a reassessment of the risk appetite of the Board to react to the changing priorities which will develop as the strategic planning process unfolds during 2021. This work will be conducted against the backdrop of the specific review of the future delivery model for college education in the Glasgow Region and the wider impact of the SFC sector review.	The risk appetite set by the Board may not be aligned with the strategic priorities of the organisation.	R4 As part of the work to develop the refreshed Strategic Plan for GCRB, a session should be held to revisit the Board's risk appetite in order to ensure that there is alignment with the new strategic priorities and to ensure that the risk appetite levels set out in the Risk Management Guidance are a true reflection of the agreed risk appetite of the Board moving forward.	<p>Agreed. The recommendation will be implemented following the adaptation by the Board of the Strategic Plan.</p> <p>To be actioned by: Executive Director</p> <p>No later than: 30 June 2021</p>
			<p>Grade</p> <p>3</p>

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