

Audit and Assurance Committee Meeting

Date of Meeting	Tuesday 31 May 2022
Paper Title	Internal Audit Report – GCRB organisation specific governance
Agenda Item	7
Paper Number	AAC4-C
Responsible Officer	Henderson Loggie
Status	Disclosable
Action	For Noting and Comment

1. Executive Summary

- 1.1.** The Internal Audit report on GCRB organisation specific governance has been prepared by Henderson Loggie and is provided to the Audit and Assurance Committee for consideration.

2. Recommendations

- 2.1.** The Committee is invited to **consider** the Internal Audit report on GCRB organisation specific governance and **comment** as appropriate.

3. Report

3.1. The Internal Auditor has provided a review of GCRB organisation specific governance using the scope of works approved by this Committee at its previous meeting. The attached report shows the key findings and recommendations.

4. Risk and Compliance Analysis

4.1. The work of the Internal Auditor is informed by an assessment of risk. The approach to audit planning reflects an overall assessment of the relevant risks that apply to GCRB. This ensures that the audit focuses on the areas of highest risk.

4.2. There are no legal implications as a result of this report.

5. Financial and Resource Analysis

5.1. The internal audit programme 2021-22 is based upon a requirement of 18 days per annum. This report was scheduled to utilise 3 days of the 2021-22 allocation. The cost per day is based upon the price previously tendered by Henderson Loggie.

6. Equalities Implications

6.1. There are no equalities implications as a direct result of this report.

7. Learner Implications

7.1. Through the conditions of grant associated with the Regional Outcome Agreement, GCRB is required to conduct its affairs in accordance with the expected standards of good governance, which includes independent scrutiny and audit.

LEVEL OF ASSURANCE

Requires Improvement

Glasgow College's Regional Board

GCRB organisation specific governance

Internal Audit report No: 2022/02

Draft issued: 23 May 2022

Final issued: 24 May 2022



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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

Requires Improvement	System has weaknesses that could prevent it achieving control objectives.
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Risk Assessment

This review focused on the controls in place to mitigate the following risks on the Glasgow Colleges Regional Board ('the GCRB') Strategic Risk Register:

- The reputation of the College Sector in Glasgow is damaged as a result of adverse publicity.
- Working relationships within the Glasgow College Region (e.g. students, staff, board members) are ineffective and reduces our collective impact.

Background

As part of the Internal Audit programme at the GCRB for 2021/22 we carried out a review of GCRB organisation specific governance. This is 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 Post-16 Education (Scotland) Act 2013 sets out in legislation the governance frameworks in the multi-college regions. The Scottish Funding Council (SFC) required full assurance that robust processes and procedures were in place prior to confirmation of fully operational fundable body status for Regional Strategic Bodies (RSBs). The award of fully operational fundable body status from 1 April 2017, meant that GCRB assumed all of the responsibilities associated with a Regional Strategic Body, including the funding for college provision in Glasgow Region and appropriate monitoring processes, including monitoring the performance of the assigned colleges.



Scope, Objectives and Overall Findings

The scope of this audit was to consider GCRB's organisation-specific governance and approach, providing a future-facing insight to provide clarity for any future incidents. This included consideration of reporting lines between the three assigned colleges and GCRB in relation to the reporting of significant events.

The table below notes each separate objective for this review and records the results:

Objective	Findings		
	1	2	3
The objective of our audit was to obtain reasonable assurance that	No. of Agreed Actions		
1. The mechanisms for reporting significant events to GCRB, as Regional Strategic Body, are embedded within the Financial Memorandum between GCRB and the three Glasgow Colleges.	Good	-	-
2. The requirement to report significant events is appropriately defined in order to remove any ambiguity.	Good	-	-
3. There is an agreed protocol in place between the GCRB Board and the three College Boards regarding required reporting routes, format of reporting, and timelines for reporting of different types of events.	Requires Improvement	-	1
4. The reporting of significant events to the Scottish Funding Council is a matter reserved for GCRB and the role of the GCRB Board and Audit and Assurance Committee in evaluating evidence to ensure appropriate reporting to SFC is clearly set out and communicated to stakeholders.	Requires Improvement	-	1
Overall Level of Assurance	Requires Improvement	-	2
		System has weaknesses that could prevent it achieving control objectives..	

Audit Approach

Through discussions with the GCRB Executive Director and Finance and Resources Director and also, and review of supporting information, we have reviewed the extent to which the current documented governance arrangements fulfil GCRB's responsibilities as a Regional Strategic Body.



Summary of Main Findings

Strengths

- the mechanisms for reporting significant events to GCRB, as Regional Strategic Body, are embedded within the Financial Memorandum between GCRB and the three Glasgow Colleges and the requirement of college chief executive officers to report significant adverse events to the RSB's Chief Officer "without delay of any circumstance" are clearly set out;
- the Financial Memorandum between GCRB and the three assigned colleges include examples of a significant threat to the colleges financial position; a significant fraud; and a major accounting breakdown to provide sufficient clarity for the assigned colleges in determining the circumstances in which a notification is required; and
- The Glasgow College Region Memorandum of Understanding (MoU): 'working effectively in partnership to achieve shared strategic goals' was agreed in 2017 and sets out the expectation that "*The four boards recognise that observance of the nine Principles of Public Life in Scotland will underpin effective partnership working and the boards will seek to undertake all their communications and other activities in a manner that is consistent with those principles*". One of the three overarching commitments described in the MoU is the need for proactive and Open Communication.

Weaknesses

- there is currently no agreed protocol in place between the GCRB Board and the three College Boards regarding required reporting routes, format of reporting, and timelines for reporting of different types of events;
- while the Financial Memorandum between GCRB and the SFC and the GCRB Audit and Assurance Committee terms of reference set out the requirement for GCRB to report specific serious or significant issues to SFC, it is not explicitly stated that the GCRB Board or the Audit and Assurance Committee has responsibility for evaluating evidence to allow appropriate reporting to SFC (in line with the Financial Memorandum between GCRB and SFC); and
- the role of the GCRB Board and Audit and Assurance Committee in evaluating evidence and reporting significant issues to the SFC has not been formally communicated to stakeholders, including the three assigned colleges.

Acknowledgments

We would like to take this opportunity to thank the staff at GCRB who helped us during our audit.



Main Findings and Action Plan

Objective 1 - The mechanisms for reporting significant events to GCRB, as Regional Strategic Body, are embedded within the Financial Memorandum between GCRB and the three Glasgow Colleges

Paragraph 9 of Part 1 the Financial Memorandum between GCRB and the three assigned colleges in the Glasgow Region states “*In order to meet his or her responsibilities, the Chief Officer of the Regional Strategic Body must be satisfied that the governing body of the College meets the requirements of this FM as a condition of receiving grant funding from the Regional Strategic Body. The Regional Strategic Body will therefore seek financial management and other information from the College but, as far as possible, will rely on data and information that the College has produced to meet its own needs. If further information is required, the Regional Strategic Body will make a specific request in the context of its commitment to efficient regulation*”.

Paragraph 20 of Part 1 of the Financial Memorandum between GCRB and the three assigned colleges states that “*As well as being accountable directly to the governing body for the proper conduct of the College’s affairs, the chief executive officer is also accountable directly to the Regional Strategic Body’s Chief Officer for the College’s proper use of funds deriving from the Regional Strategic Body and its compliance with the requirements of this FM*”.

In addition, Paragraph 21 of Part 1 in the Financial Memorandum between GCRB and the three assigned colleges states that “*The chief executive officer of the College must inform the Regional Strategic Body’s Chief Officer without delay of any circumstance that is having, or is likely to have, a significant adverse effect on the ability of the College to deliver its education programmes, and other related activity, including delivery of its commitment to the Regional Outcome Agreement with SFC*”.

Therefore, it is our view that the mechanisms for reporting significant events to GCRB, as Regional Strategic Body, are embedded within the Financial Memorandum between GCRB and the three Glasgow Colleges and the requirement of college chief executive officers to report significant adverse events to the RSB’s Chief Officer “without delay of any circumstance” are clearly set out.



GCRB organisation specific governance

Objective 2 - The requirement to report significant events is appropriately defined in order to remove any ambiguity.

Within paragraph 21 of Part 1 of the Financial Memorandum between GCRB and the three assigned colleges the narrative also states that *“He or she must also notify the Regional Strategic Body’s Chief Officer of any serious weakness, such as a significant and immediate threat to the College’s financial position, significant fraud or major accounting breakdown or any material noncompliance with any requirement of this FM”*.

The wording *“any material noncompliance with any requirement of this FM”* is a relatively subjective use of words in describing *“any serious weakness”*, which should be notified to GCRB. However, it is our view that the three specific examples provided of:

1. a significant threat to the colleges financial position;
2. a significant fraud;
3. a major accounting breakdown.

provides sufficient clarity for the assigned colleges in determining the circumstances in which a notification is required.



GCRB organisation specific governance

Objective 3 - There is an agreed protocol in place between the GCRB Board and the three College Boards regarding required reporting routes, format of reporting, and timelines for reporting of different types of events.

Observation	Risk	Recommendation	Management Response	
<p>The Glasgow College Region Memorandum of Understanding (MoU): ‘working effectively in partnership to achieve shared strategic goals’ was agreed in 2017 and although this document “<i>is not in itself legally binding, the Memorandum of Understanding is a public statement by the four boards of their understanding of the imperative to, and their firm intention to, work effectively in partnership</i>” it does set out the expectation that “<i>The four boards recognise that observance of the nine Principles of Public Life in Scotland will underpin effective partnership working and the boards will seek to undertake all their communications and other activities in a manner that is consistent with those principles</i>”.</p> <p>One of the three overarching commitments described in the MoU is the need for proactive and Open Communication with a specific commitment as follows “<i>We will facilitate effective communication between board members and the work of the boards, to promote awareness of each other’s priorities and concerns, and of developments that may impact on the region as a whole</i>”.</p> <p>However, there is currently no agreed protocol in place between the GCRB Board and the three College Boards regarding required reporting routes, format of reporting, and timelines for reporting of different types of events.</p>	<p>Without an agreed protocol in place there may be inconsistent understanding of the required reporting routes, format of reporting, and timelines for reporting of different types of events.</p>	<p>R1 – We would recommend that the Glasgow College Region Memorandum of Understanding (MoU) is subject to a region-wide collaborative consultation to ensure that it remains fit for purpose. As part of the consultation around potential revisions to the current wording, the possibility of including specific wording around reporting routes, format of reporting, and timelines for reporting for different types of events (as described as reportable events in the Financial memorandum with SFC and GCRB) should be explored.</p>	<p>The Regional Memorandum of Understanding will be reviewed in collaboration with representatives of the three assigned colleges.</p> <p>To be actioned by: GCRB Board Chair & Executive Director</p> <p>No later than: 31 December 2022</p>	
			<p>Grade</p>	<p>2</p>



GCRB organisation specific governance

Objective 4 - The reporting of significant events to the Scottish Funding Council is a matter reserved for GCRB and the role of the GCRB Board and Audit and Assurance Committee in evaluating evidence to ensure appropriate reporting to SFC is clearly set out and communicated to stakeholders.

Paragraph 19 of Part 1 of the Financial Memorandum between GCRB and the SFC states that “*The chief executive officer of the institution must inform SFC’s Accountable Officer without delay of any circumstance that is having, or is likely to have, a significant adverse effect on the ability of the institution to deliver its education programmes, research and other related activity, including delivery of its Outcome Agreement with SFC. He or she must also notify SFC’s Accountable Officer of any serious weakness, such as a significant and immediate threat to the institution’s financial position, significant fraud or major accounting breakdown or any material non-compliance with any requirement of this FM*”.

Observation	Risk	Recommendation	Management Response	
<p>The terms of reference for the GCRB Audit and Assurance Committee states that “<i>The committee shall inform the SFC audit committee if it considers that it has identified a significant problem that may have wider implications for the FE sector or public sector</i>”.</p> <p>However, while the Financial Memorandum between GCRB and the SFC and the GCRB Audit and Assurance Committee terms of reference set out the requirement for GCRB to report specific serious or significant issues to SFC, it is not explicitly stated that the GCRB Board or the Audit and Assurance Committee has responsibility for evaluating evidence to allow appropriate reporting to SFC (in line with the Financial Memorandum between GCRB and SFC). Accordingly, the role of the GCRB Board and Audit and Assurance Committee in evaluating evidence and reporting significant issues to the SFC has not been formally communicated to stakeholders, including the three assigned colleges.</p>	<p>Without clarity on the role of the role of the GCRB Board and Audit Assurance committee stakeholders may not be aware of the role of these bodies in evaluating evidence and in reporting issues to SFC.</p>	<p>R2 – The next iteration of the Financial Memorandum between GCRB and the three assigned Colleges should clearly articulate the role of the GCRB Board and Audit Committee in evaluating and reporting significant events to the SFC and the terms of reference for the Audit and assurance Committee should be updated to reflect the role of the committee in evaluating evidence prior to reporting to SFC.</p>	<p>The SFC are undertaking a review of its Financial Memorandum with colleges and college regions. These changes will impact on, and be reflected in, the Financial Memorandum between GCRB and the three assigned colleges.</p> <p>To be actioned by: GCRB Finance & Resources Director</p> <p>No later than: 31 December 2022 (contingent upon the SFC completing their review)</p>	
			<p>Grade</p>	<p>2</p>



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