

Audit Committee Meeting

Date of Meeting	Tuesday 6 March 2018
Paper Title	Implementation of Internal Audit Recommendations
Agenda Item	7
Paper Number	AC3-C
Responsible Officer	Jim Godfrey, Finance & Resources Director
Recommended Status	Disclosable
Action	For Discussion

1. Report Purpose

- 1.1. To consider progress in respect of the recommendations arising from the work of the Internal Auditor.

2. Recommendations

- 2.1. The Committee is invited to **note** the progress made to implement the recommendations of the previous Internal Audit reports.

3. Report

- 3.1. At the last meeting, the committee received a progress report regarding the implementation of the previous recommendations of the internal auditor. The report highlighted that a total of 27 recommendations had been made, of which 21 had been fully implemented.
- 3.2. Of the remainder, one had been considered but a decision taken not to implement it. There are 5 outstanding recommendations at this stage; one in respect of the regional outcome agreement, one in respect of financial performance management and three regarding the financial memorandum. The detailed progress against each recommendation is shown within the Annex to this report.

4. Risk Analysis

- 4.1. The report provides evidence that GCRB is responding to the recommended improvements identified by internal audit and taking action to improve internal controls.

5. Legal Implications

- 5.1. There are no specific legal implications arising from this report.

6. Resource Implications

- 6.1.** The provision of internal audit is a necessary component of an organisation's overall governance arrangement with regard to both financial and other matters. The resource required to implement these recommendations is borne within the operating budget of GCRB.

7. Strategic Plan Implications

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

Regional Outcome Agreement

Original Recommendation	Priority	Management Response	To Be Actioned By	No Later Than	Progress at February 2018
<p>RI The Executive Director should obtain information from each assigned college’s student records system and analyse this to gain assurance that assigned colleges’ ROA progress information submitted is reasonable.</p>	<p>3</p>	<p>Agreed</p>	<p>Executive Director</p>	<p>December 2017</p>	<p>Complete: New ROA monitoring arrangements developed by the Regional Lead for Student Data include direct access to college FES reports on a bi-monthly basis.</p>

Financial Performance Management

Original Recommendation	Priority	Management Response	To Be Actioned By	No Later Than	Progress at February 2018
<p>R3 The P&RC should agree what financial monitoring report/s they should receive in each of their annual cycle of four meetings. The format (both headings within the narrative section of the report, and the layout of the financial information) should also be agreed.</p>	3	<p>Agreed. The colleges' Sustainable Institutions Group will draft financial monitoring report/s for consideration at the next meeting of the GCRB Performance and Resources Committee.</p>	Chair of Colleges Sustainable Institutions Group	August 2016	<p>In progress - The Finance and Resources Director receives regular financial information from the assigned colleges i.e. financial/management accounts, annual accounts returns, financial forecast returns, resource returns and cash flow forecasts. This information is reviewed by the Finance and Resources Director and exceptions discussed with representatives of the colleges and the Scottish Funding Council. A paper on the monitoring arrangements is being considered by the Performance and Resources Committee on 7 March 2018.</p>

Financial Memorandum

Original Recommendation	Priority	Management Response	To Be Actioned By	No Later Than	Progress at February 2018
<p>R5 Update the Financial Procedures Manual to state:</p> <ol style="list-style-type: none"> 1) that the GCRB Director of Finance & Resources must inform SFC when an internal auditor is appointed and must inform SFC immediately if the internal auditor is removed or departs before the end of their term of office (para 19); 2) that the internal audit Annual Reports for GCRB and the assigned colleges should be forwarded by the Director of Finance & Resources to the SFC (para 22); 3) that where the SPFM requires bodies to notify or request prior approval from the Scottish Government then GCRB must, in the first instance, contact SFC (Section 3, para 7); 4) that cash reserves in the GCRB bank account are to be kept at a minimum (Section 3, para 10); 5) the requirements of the Financial Memorandum regarding contingent liabilities (section 3 paras 15 and 16); 6) the Financial Memorandum's requirements regarding delegated financial limits (section 3 para 17); 7) the Financial Memorandum's requirements regarding novel, contentious or repercussive expenditure (section 3 para 18); 	2	<p>Some sections have already been drafted in revisions made to the Financial Procedures Manual by Henderson Loggie as part of this audit. The following sets out which sections have been updated:</p> <ol style="list-style-type: none"> 1) Section 11 2) Not yet revised 3) Section 01 4) Section 03 5) Section 10 6) Not yet revised 7) Section 14 8) Not yet revised 9) Not yet revised 10) Not yet revised <p>The remaining sections to be revised by the Interim Director of Finance & Resources.</p>	Interim Director of Finance & Resources	May 2017	<p>In-progress: The Financial Procedures Manual has been updated to reflect these recommendations. The Manual has also been updated to reflect experience gained from using these procedures. The revised financial procedures were considered by the Performance and Resources Committee on 9 October 2017. The revised procedures will be reviewed by the Interim Chair and Chair of Audit Committee.</p>

Financial Memorandum

Original Recommendation	Priority	Management Response	To Be Actioned By	No Later Than	Progress at February 2018
<p>R5 (continued)</p> <p>8) a) the need for annual reporting on expenditure over the set reporting levels in Appendix A of S14 of the Financial Procedures Manual (including who will do this and when) and the need to disclose the number of instances and total cost, by category of such expenditure; and b) the Director of Finance & Resources must obtain this information from the assigned colleges and report the GCRB and assigned colleges' figures to the GCRB Board or a GCRB Committee, and also to the SFC (section 3 para 22);</p> <p>9) that the Director of Finance will review assigned colleges' Resource Returns to ensure that there is adequate cash and resource cover in assigned colleges for any arms-length foundation transfers assigned colleges make (section 3 para 23); and</p> <p>10) that the Director of Finance & Resources must review assigned colleges' Resource Returns for impairments and significant movements in provisions and to discuss these with assigned colleges to gain an understanding of the reason for these. For any impairments and significant movements identified this way, or through assigned colleges informing GCRB directly of these, the Director of Finance & Resources must inform the SFC of these as soon as possible (section 3 para 30).</p>	As Above	As Above	As Above	As above	

Financial Memorandum

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<p>R7 Insert into the assigned colleges' Certificate of Assurance to GCRB that they confirm that they have complied with:</p> <ol style="list-style-type: none"> 1) the requirements of the SPFM (except where any special actions or derogations have been agreed with the Scottish Ministers). (para 3); 2) the SPFM requirement for them to notify SFC (via the GCRB) of any item in the SPFM that requires prior approval from the Scottish Government. (para 7); 3) the requirement for overdrafts not to be used as a means of increasing borrowing (para 13); 4) the requirement to seek SFC's prior written consent (via GCRB) before they lend any funds or give a guarantee, indemnity or letter of comfort (para 14); 5) the Financial Memorandum's requirements relating to contingent liabilities (paras 15 and 16); 6) the requirement to obtain SFC's prior written approval (via GCRB) before entering into any undertaking to incur any expenditure that falls outwith delegations set out in Appendix A of the Financial Memorandum (para 17); 7) the requirement to obtain SFC approval (via GCRB) before incurring expenditure for any purpose that is, or might be considered, novel, contentious or repercussive or which has or could have significant future cost implications (paras 18 and 19); 	2	Assigned Colleges' Certificate of Assurance to be updated for future returns.	Interim Director of Finance & Resources	July 2017	<p>Complete for 2017 and In progress for 2018: These actions were appended to the Grant Letter provided to the assigned colleges in respect of the 2017/18 grant. The Certificate of Assurance (in respect of the year ending 31 Mar 2018) will also incorporate these statements.</p>

Financial Memorandum

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<p>8) the requirement to disclose information about frauds to GCRB (para 20);</p> <p>9) the requirement to establish appropriate documented internal delegated authority arrangements consistent with the Delegated Authority section of the SPFM and the Financial Memorandum (para 21);</p> <p>10) the requirement that any severance scheme is approved by SFC (via GCRB) (para 27);</p> <p>11) the requirement to not make any investments of a speculative nature without the prior written approval of SFC (via GCRB) (para 34); and</p> <p>12) the requirement for any contract without competition (non-competitive action) to have been approved in advance by SFC (via GCRB) for any amounts over £25,000 (para 36).</p>	As above	As Above	As above	As above	
<p>R10 The Audit Committee or Audit Committee Chair or Board Secretary should consider whether GCRB complies with the Audit Committee Handbook and where it does not comply consideration should be given to whether GCRB should comply or not, given that there is a degree of flexibility for smaller entities allowed.</p>	3	Review to be undertaken on behalf of the Committee.	Board Secretary	July 2017	<p>In progress – a report on compliance with the Handbook will be brought to the May meeting of the Audit Committee, to be considered alongside the annual report on the Code of Good Governance.</p>

