

Audit Committee Meeting

Date of Meeting	Monday 13 June 2016
Paper Title	Internal Audit Reports 2015-16
Agenda Item	14
Paper Number	AC3-J
Responsible Officer	Henderson Loggie
Status	Disclosable
Action	For discussion

1. Report Purpose

- 1.1. Consider the GCRB Internal Audit Reports for 2015-16.

2. Recommendations

- 2.1. The Committee is invited to:

- **note** the internal audit reports for 2015-16; and
- **agree** that GCRB management should bring forward a report to the Committee's next meeting setting out how GCRB has addressed the recommendations contained within the 2015-16 internal audit reports.

3. Background

- 3.1. Three areas for internal audit were identified, and the table below lists these and the respective audit findings in terms of overall level of assurance.

Area of Audit:	Level of Assurance:
ROA development/monitoring of progress against ROA:	Good
GCRB risk management/oversight of assigned colleges risk management	Satisfactory
Financial performance monitoring (GCRB and assigned colleges)	Satisfactory

- 3.1. For each of the above areas, the reports highlight a number of areas of strength, alongside identifying some weaknesses. Section 8 in each report provides an action plan to address these areas of weakness, including action owners and planned completion dates.

4. Risk Analysis

- 4.1. The reports provide evidence that the areas audited meet control objectives.

5. Legal Implications

5.1. There are no specific legal implications.

6. Financial 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.

7. Regional Outcome Agreement Implications

7.1. 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

GCRB Risk Management / Oversight of Assigned College's Risk Management

Internal Audit Report No: 2016/02

Draft Issued: 30 May 2016

Final Issued: 3 June 2016

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	Issues which require the consideration of the Board or one of its committees.
Priority 2	Significant matters that the Interim Chief Officer / Executive Director can resolve.
Priority 3	Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.

1. Overall Level of Assurance

Satisfactory

System meets control objectives with some weaknesses present.

2. Risk Assessment

This review covered the risk management framework, which encompasses all risks on the Glasgow Colleges' Regional Board's (the GCRB's) Risk Register. As a result no linkage from the audit work to specific risks has been made.

3. Background

HM Treasury, in its publication 'The Orange Book: Management of Risk – Principles and Concepts', defines risk management as 'All the processes involved in identifying, assessing and judging risks, assigning ownership, taking actions to mitigate or anticipate them, and monitoring and reviewing progress'.

An effective risk management process is essential to ensure that GCRB can effectively react to risks and continue to operate key activities and ensure that the interests of key stakeholders continue to be met.

The Scottish Government requires that GCRB maintains a risk management framework which is consistent with the Scottish Public Finance Manual requirements. This includes the need to identify and assess risks, set an acceptable level of risk (the risk tolerance), ensure that risks are appropriately responded to and regularly review and monitor these.

4. Scope, Objectives and Overall Findings

The scope of this audit covered whether there are adequate policies and procedures in place to assess risk and mitigate against the possibility of unexpected and unplanned events and situations developing.

This included consideration of how GCRB receives assurance that assigned colleges are managing risk.

The overall objective of our audit was to obtain reasonable assurance that systems in place are sufficient to ensure that GCRB's principal risks are identified and responses to these risks are appropriate so overall risk is kept within GCRB's approved levels of tolerable risk. The table below notes secondary objectives for this review and records the results:

4. Scope, Objectives and Overall Findings (Continued)

Objective	Findings		
	1	2	3
The specific objectives of the audit were to ensure that:	No. of Agreed Actions		
1. A formal risk management framework is in place which includes: assessing GCRB's propensity for risk; risk identification and assessment; risk mitigation; and reporting and monitoring of key risks	Good	0	0
2. Risk management policies and procedures are formally documented	Satisfactory	0	2
3. Responsibility for managing risks is clearly assigned and responsible individuals have been trained in risk management	Satisfactory	0	1
4. Risk management is embedded within GCRB's activities and is undertaken on all projects	Good	0	0
5. There is adequate ongoing monitoring and reporting of risk management processes, as well as consideration of how to continually improve these	Satisfactory	0	3
6. There is an appropriate process in place in order to gain oversight of assigned colleges' risk management frameworks, and to review the assurance that is provided over these by college management, Boards and external auditors	Good	0	0
Overall Level of Assurance	Satisfactory	0	1
			6
System meets control objectives with some weaknesses present.			

5. Audit Approach

We discussed the risk management process with the GCRB's Interim Chief Officer. Risk management documents and reports were then reviewed to determine whether the risk management process in place was robust and functioning effectively.

We also benchmarked the GCRB's risk management framework against good practice using a comprehensive risk management checklist based on relevant guidance set out in the Scottish Public Finance Manual and other good practice guidance.

6. Summary of Main Findings

Strengths

- There is a robust risk management framework in place, with a detailed Risk Management Policy and Procedure and Risk Management Guidance which sets out responsibilities, risk tolerances and risk scoring definitions;
- There is a risk register in place which is regularly reviewed and reported to the GCRB Board;
- Risk Mitigating Action Plans set out in detail risk mitigating action, and regular updates on mitigating actions are provided to the Audit Committee; and
- There were formal plans for assurance from assigned colleges to be obtained and reported on to the Audit Committee.

Weaknesses

- A small number of areas for improvement within the Risk Management Policy and Procedure and Risk Management Guidance were noted;
- Most risks were above their risk tolerance acceptable scores which would indicate that either the tolerances should be amended or further mitigating controls put in place, or a mixture of both; and
- The GCRB risk register could be expanded to include some further risks which we identified.

A number of more minor observations were discussed with the Interim Chief Officer and have been provided separately to the Executive Director for consideration.

7. Acknowledgements

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

8. Action Plan

Objective 1: A formal risk management framework is in place which includes: assessing GCRB's propensity for risk; risk identification and assessment; risk mitigation; and reporting and monitoring of key risks

We reviewed the Risk Management framework in place and noted that this was formally set out in the Risk Management Policy and Procedure and Risk Management Guidance. This included:

Risk Tolerance

The Risk Management Policy and Procedure set out the GCRB's risk tolerance (propensity for risk) for a range of different risk categories.

Risk Identification

A strategic risk register was developed by the Interim Chief Officer for the August 2015 Audit Committee meeting, based on SFC and assigned colleges' risk registers. This was reviewed in detail on by the Audit Committee on 27 October 2015. At each quarterly Board meeting since October 2015 the Risk Register has been taken to the Board requesting they 'suggest additions and amendments to the current Risk Register'. The Interim Chief Officer is responsible for updating the Risk Register for any changes highlighted by the Audit Committee.

Risk Assessment

The Risk Register includes an evaluation of likelihood and impact ranked on a scale of one to three, with a maximum score of nine and minimum score of one. There are formal definitions for what each score is and the scores have been considered by the GCRB Board. There is also a risk colour coding (Red = nine, Amber = six, Green = one to four).

Risk Mitigation

The Risk Management Guidance sets out the need to consider how to react to risk either through mitigating, avoiding, transferring, sharing or accepting the risk. The actions to react to risks are set out in the Risk Mitigating Action Plans (Risk MAPs) which are updated by the Interim Chief Officer and reviewed by the Board, with any changes made by the Interim Chief Officer being highlighted to the Board.

Risk Reporting and Monitoring and Updating Risk Registers

The Board reviews the Risk Register to ensure that key risks are captured, suitable mitigating actions are shown on the Risk MAPs, and to agree the residual risk impact and likelihood. The Risk Register is updated quarterly by the Interim Chief Officer, although if any new risks are identified between Board meetings these may be raised by the Interim Chief Officer with the GCRB Chair at their weekly meeting if considered necessary.

Objective 2: Risk management policies and procedures are formally documented			
The Risk Management Policy and Procedure and Risk Management Guidance documents were reviewed and we consider these provide a robust description of the Risk Management framework, including responsibilities, key documents, requirements, and definitions.			
Observation	Risk	Recommendation	Management Response
<p>Risk Management Policy and Procedure</p> <p>We reviewed the Risk Management Policy and Procedure and under section seven, Responsibilities, noted:</p> <ul style="list-style-type: none"> The Board has advised they wished to be the key group which reviews the risk register but the Risk Management Policy and Procedure is written on the basis that the Audit Committee does this. The 'Role of the Board' and 'Role of the Audit Committee' sections therefore need to be updated to move the responsibilities from the Audit Committee (about advising the Board on the management of significant risks, seeking assurance over less significant risks, and reviewing risks at each main meeting) to the Board; and The Board responsibility for 'monitoring the management of significant risks' could be merged with 'review risks at each main meeting'. 	<p>Risk</p> <p>If responsibilities for Risk Management are not clearly set out the Risk Management framework may not be as robust as possible,</p>	<p>R1</p> <p>Review the Risk Management Policy and Procedure and update to reflect the agreed Risk Management responsibilities of the Board and Audit committee.</p>	<p>Agreed. Risk Management Policy and Procedure will be redrafted and presented for agreement at the next meeting of the GCRB Audit Committee.</p> <p>To be actioned by: GCRB Executive Director</p> <p>No later than: August 2016</p>
		Grade	3

Objective 2: Risk management policies and procedures are formally documented (Continued)					
Observation	Risk	Recommendation	Management Response		
<p>Risk Management Guidance We reviewed the Risk Management Guidance and noted a number of points. A number of minor points have been raised with the Interim Chief Officer for consideration. The most significant items noted are:</p> <p>Section Seven – Risk Management Action Plans</p> <ul style="list-style-type: none"> The Risk Management Guidance does not state that the Risk Management Action Plans should detail how the risks are being treated, including key mitigating activities; and The Risk Management Guidance does not state that, where appropriate, specific activities being undertaken should be written in a way to ensure these are SMART (Specific, Measurable, Achievable, Relevant and Time-bound). 	<p>If the Risk Management framework is not clearly set out within Risk Management documentation there may be inconsistency in how this is applied or interpreted, and the Risk Management framework may not be as robust as possible.</p>	<p>R2 Review the Risk Management Guidance for the points noted within this report and amend it as considered appropriate.</p>	<p>Agreed. Risk Management Guidance will be redrafted and presented for agreement at the next meeting of the GCRB Audit Committee.</p> <p>To be actioned by: GCRB Executive Director</p> <p>No later than: August 2016</p>		
			<table border="1"> <tr> <td>Grade</td> <td>3</td> </tr> </table>	Grade	3
Grade	3				

Objective 3: Responsibility for managing risks is clearly assigned and responsible individuals have been trained in risk management			
<p>Responsibilities The Risk Management Policy and Procedure clearly set out responsibilities of individuals and groups regarding Risk Management.</p> <p>Risk Management Training We note that the Interim Chief Officer is a chartered accountant and in his role at SFC he has been involved with Risk Management for a significant period and has attended many courses covering Risk Management.</p> <p>The GCRB Board skills matrix has a Risk Management category, and this indicates that there are a sufficient number of Board members who have Risk Management skills.</p>			
Observation	Risk	Recommendation	Management Response
<p>Risk Escalation A key part of the risk management process is to ensure there is a clear process, and responsibility assigned, for formal risk escalation in the event that a) the likelihood or impact of a risk increases significant and further mitigating action is required, or b) a risk crystallises and contingency plans are required to be put in place. The Scottish Public Finance Manual sets out that there should be formal escalation processes in place.</p>	<p>If the likelihood or impact of risks increases significantly informal arrangements may not escalate risks appropriately to ensure they are mitigated as well as might be possible..</p>	<p>R3 Put in place a formal risk escalation process and document this within the Risk Management Policy and Procedure and / or Risk Management Guidance.</p>	<p>Agreed. Risk Management Policy and Procedure and Guidance will be redrafted and presented for agreement at the next meeting of the GCRB Audit Committee.</p> <p>To be actioned by: GCRB Executive Director</p> <p>No later than: August 2016</p>
		Grade	3

Objective 3: Responsibility for managing risks is clearly assigned and responsible individuals have been trained in risk management (Continued)			
Observation	Risk	Recommendation	Management Response
<p>We noted that on the 25 January 2016 Risk Register of the 12 risks set out: 10 of these had net risk scores higher than their risk tolerance, meaning that risks are at levels higher than GCRB considers is tolerable, and would indicate a need to:</p> <ul style="list-style-type: none"> ● implement a greater level of controls in order to reduce the net risk scores or create contingency plans; or ● increase risk tolerances; or ● reconsider the net risk scores; ● or a mixture of the above. 	<p>Risk levels are higher than the levels considered acceptable by the GCRB Board, and this may impact on GCRB's ability to deliver its strategic goals and statutory objectives.</p>	<p>R4 Consider the implications of the risk scoring and ensure appropriate action is taken.</p>	<p>Agreed. A draft updated risk register will presented for agreement at the next meeting of the GCRB Board.</p> <p>To be actioned by: GCRB Executive Director</p> <p>No later than: August 2016</p>
			<p>Grade 2</p>

Objective 4: Risk management is embedded within GCRB's activities and is undertaken on all projects

Projects

There are no specific projects undertaken by GCRB. However we note that there is some collaboration between assigned colleges on projects, such as the current common application system project. There is reporting to the Performance and Resources Committee on these projects, and these updates are a means of overseeing whether projects are on budget, within deadlines and have appropriate quality mechanisms. We note that the Terms of Reference of the Performance and Resources Committee states 'The committee shall:

- a) oversee the implementation of regional projects and make recommendations to the Board in relation to implementation and advise on any matters of concern; and
- b) monitor and keep under review the effectiveness of the implementation of regional projects and receive reports on a regular basis'.

From our review of the common application system project updates that have gone to the Performance and Resources Committee we consider that these are adequate, and we note that each paper presented had a section on risks as part of the standard structure of GCRB Board and Committee papers.

The Board advised on 25 January 2016 that although they had a strategic Risk Register that they wanted to identify risks at the GCRB committee level. Papers to committees include discussion of relevant risks and we consider that this is sufficient to address this. We also noted that the Risk Management Guidance refers to 'Level 2' risks being identified however at the time of audit fieldwork this had not been done. The guidance originally came from one of the assigned colleges where identification of 'Level 2' risks would be appropriate, however we consider that this may not be appropriate for GCRB, and have included further consideration of this in the list of minor observations for further review.

Objective 5: There is adequate ongoing monitoring and reporting of risk management processes, as well as consideration of how to continually improve these

Monitoring and Reporting of Risk Management

As set out under Objective 1 the GCRB Board reviews the Risk Register to ensure that: key risks are captured; the residual risk impact and likelihood is assessed; and that suitable mitigating actions are shown on the Risk MAPs. The Risk Register is updated quarterly by the Interim Chief Officer, although if any risks are identified between meetings these may be raised with the Chair at weekly meeting the Interim Chief Officer has with Chair.

From review of the GCRB Board minutes of 27 October 2015 and 25 January 2016 we noted that the Risk Register was reviewed in detail and that there was appropriate discussion and review of this by the Board.

We noted that the Glasgow Colleges Group Sustainability Sub-group reviewed the GCRB and 3 assigned college Risk Registers in March 2016 for the first time, and the Interim Chief Officer advised that this is planned to be done on an ongoing basis in future.

We reviewed the risk register, risk tolerance, set risk scores, and risk MAP and noted a number of minor points that have been highlighted to the Interim Chief Officer.

Observation	Risk	Recommendation	Management Response
<p>Objective 5: There is adequate ongoing monitoring and reporting of risk management processes, as well as consideration of how to continually improve these (Continued)</p> <p>Risk Register Review</p> <p>a) Target score We noted the target risk score was the same as the risk tolerance in 11 of the 12 risks given. From discussion with the Interim Chief Officer it was noted that the two are essentially the same and that the target risk score should be removed</p>	<p>There is no benefit from having a risk tolerance and target.</p>	<p>R5 Remove the risk target and update the Risk Management Guidance to reflect this.</p>	<p>Agreed. A draft updated risk register will be presented for agreement at the next meeting of the GCRB Board.</p> <p>To be actioned by: GCRB Executive Director</p> <p>No later than: August 2016</p>
<p>b) Risk Movement: It was noted that the Board cover paper to the 25 January 2016 GCRB Board Risk Register highlighted where there were changes in likelihood or new risks, however it only provided the risk numbers and did not state what these risks were or have a short description outlining why these had changed.</p>	<p>It is inefficient for Board members to have to identify what risks have changed, and Board members may not be aware of why these have changed.</p>	<p>R6 Ensure the Risk Management paper to the Board sets out for all risks that have changed the risk descriptions and reason/s for the change.</p>	<p>Agreed. A draft updated risk register will be presented for agreement at the next meeting of the GCRB Board.</p> <p>To be actioned by: GCRB Executive Director</p> <p>No later than: August 2016</p>
			<p>Grade</p> <p style="text-align: center;">3</p>
			<p>Grade</p> <p style="text-align: center;">3</p>

Objective 5: There is adequate ongoing monitoring and reporting of risk management processes, as well as consideration of how to continually improve these (Continued)					
Observation	Risk	Recommendation	Management Response		
<p>Risk Register Completeness We reviewed the risk register for completeness against two other FE Colleges' risk registers, and also from our own consideration of key risks relating to GCRB, and we noted that the following items could be considered for including on the GCRB strategic risk register:</p> <ul style="list-style-type: none"> • Disruption to services and / or partnership working resulting from loss of a key staff member or over office space / IT equipment; and • The Regional Outcome Agreement is not appropriately aligned with local needs / poor market intelligence. <p>We also noted:</p> <ul style="list-style-type: none"> • Risk 12 relates to reputation risk but could be better reworded to deal with external public relations and media relations as well; and • Risk 5 covers 'breakdown in performance in the assigned colleges (including academic quality management arrangements)' but could also refer in the brackets to financial stability issues. 	<p>Not all risks may be adequately monitored and mitigated</p>	<p>R7 Consider whether the Risk Register should be amended for the items noted in this report.</p>	<p>Agreed. These items will be considered at the next meeting of the GCRB Board.</p> <p>To be actioned by: GCRB Executive Director</p> <p>No later than: August 2016</p>		
			<table border="1"> <tr> <td>Grade</td> <td>3</td> </tr> </table>	Grade	3
Grade	3				

Objective 5: There is adequate ongoing monitoring and reporting of risk management processes, as well as consideration of how to continually improve these (Continued)

Annual Statement on the Effectiveness of the System of Risk Management

We note that during 2014/15 there was not a formal risk management framework in place and hence there was no statement on the effectiveness of the system of Risk Management and internal controls in the 2014/15 financial statements.

For 2015/16 the Interim Chief Officer advised he plans to formally outline the controls in place and the sources of assurance over their effectiveness and will provide this to the Audit Committee to inform their assessment of the effectiveness of the system of Risk Management. The Audit Committee will then provide this to the Board for their consideration and approval and inclusion in the financial statements.

Objective 6: There is an appropriate process in place in order to gain oversight of assigned colleges' risk management frameworks, and to review the assurance that is provided over these by college management, Boards and external auditors

We note that from the June 2016 meeting of the Audit Committee it is planned that the assigned colleges' internal and external audit reports will go to the Interim Chief Officer for them to review and then will go to the Audit Committee in full.

There will be an annual review of the assigned colleges' annual audit reports (internal audit and external audit reports and opinions). This will be done for the first time at the June 2016 meeting of the Audit Committee for the 2014/15 annual reports.

Reliance will be placed on the statements on the effectiveness of systems of Risk Management and internal controls within the assigned colleges' annual report and financial statements which the Interim Chief Officer advised will be provided to the Audit Committee.

The Glasgow Colleges Group Sustainability Sub-group, which the Interim Chief Officer attends, reviews all three assigned colleges' risks registers. This has three purposes: to inform GCRB's Risk Register; to allow sharing thoughts on risks including changes in risk scores; and to give the Interim Chief Officer some assurance that risks are being managed.



Glasgow Colleges' Regional Board

**Regional Outcome Agreement (ROA) Development /
Monitoring of Progress against ROA**

Internal Audit Report No: 2016/04

Draft Issued: 30 May 2016

Final Issued: 3 June 2016

LEVEL OF ASSURANCE

Good

Content

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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	Issues which require the consideration of the Board or one of its committees.
Priority 2	Significant matters that the Executive Director can resolve.
Priority 3	Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.

1. Overall Level of Assurance

Good	System meets control objectives.
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2. Risk Assessment

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

- If there is a lack of consensus between GCRB and the assigned college boards on a shared strategy for the Glasgow region, GCRB's ability to make a positive impact on learning opportunities for students will be reduced (net risk score: 2);
- If the quality of governors or senior personnel at one of the assigned colleges falls below the required level, the strategic and operational effectiveness of the college will be impaired (net risk score: 3);
- If key stakeholders lose confidence in GCRB, leverage of current and future partnership resources for delivery of the Regional Outcome Agreement (ROA) will be impaired (net risk score: 2); and
- If there is breakdown in performance in the assigned colleges (including academic quality management arrangements), the ROA targets may not be achieved (net risk score: 3).

3. Background

Outcome agreements were introduced in 2012/13 and are intended to enable colleges and the SFC to demonstrate the impact of the sector and its contribution to meeting Scottish Government priorities clearly and consistently to key stakeholders.

The SFC is the main funder for the GCRB's assigned colleges, and makes payment to GCRB assigned colleges of grant in aid, capital and estates maintenance funding and other ring-fenced funding. As part of SFC's Standard Conditions of Grant it states 'Grant is provided to allow colleges to deliver their regional outcome agreements under the terms of section 5 of the Further and Higher Education (Scotland) Act 2005' and 'If the college – or the colleges collectively in a multi-college region – does not deliver the outcome agreement and the targets within it, or the other conditions of grant in this document, the SFC will consider clawback of grant or reductions in future funding.' It is therefore important that there are robust processes in place for the preparation and monitoring of the ROA to avoid any financial implications that may result from not meeting targets.

4. Scope, Objectives and Overall Findings

The scope of this audit covered whether the procedures in place to develop, review and approve the ROA were adequate, and to determine whether there was appropriate monitoring of progress against ROA targets.

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

Objective	Findings			
	1	2	3	
The specific objectives of the audit were to obtain reasonable assurance that:	No. of Agreed Actions			
1. There is a robust process to prepare, review and approve the Regional Outcome Agreement, including identifying local skills needs and establishing baselines against which progress with development towards a fully regional strategic approach can be compared in future years	Good	0	0	0
2. There are appropriate mechanisms to ensure that the impact of the curriculum and estates review phase I (in progress) is taken into account in allocation of education provision and funding between assigned colleges	Good	0	0	0
3. Processes and procedures are in place to obtain accurate and up-to-date information from assigned colleges to monitor progress against Regional Outcome Agreement targets on a regular basis	Satisfactory	0	0	1
4. The GCRB Board and Performance and Resources Committee (P&RC) regularly receive and review information measuring progress against Regional Outcome Agreement targets, including monitoring any corrective action	Good	0	0	0
Overall Level of Assurance	Good	0	0	1
				System meets control objectives

5. Audit Approach

We discussed with the Interim Chief Officer, Executive Director at City of Glasgow College (Chair of the Sustainability Sub-Group) and Director of Curriculum at Glasgow Kelvin College (on behalf of the Depute Principal, Glasgow Kelvin College, Chair of the Learning and Teaching Sub-Group) the processes around preparing the ROA and monitoring progress against ROA targets. We also obtained and reviewed relevant documents, including ROAs, minutes of meetings, and GCRB Board and committee papers.

6. Summary of Main Findings

Strengths

- There was a robust framework in place underpinning the development of the 2016/17 ROA, which was based on the regional Curriculum and Estates Plan 2015-2020, the ROA 2014/15 – 2016/17, and input from a range of staff in the GCRB assigned colleges;
- A ROA programme was in place during the development setting out tasks, owners and deadlines, and
- There was a strong process to monitor progress against the 2015/16 ROA, with information gathered from the assigned colleges, reviewed in detail by the Performance and Resources Committee (P&RC), and also provided to the GCRB Board for oversight of progress.

Weaknesses

- Reliance was placed on assigned colleges to provide accurate updates on progress against the ROA targets throughout the year, with no process in place to obtain assurance over whether these were reasonable. We have recommended that underlying student records information is obtained from the assigned colleges and reviewed to provide extra assurance in this area.

7. Acknowledgements

We would like to take this opportunity to thank the staff at the GCRB and the assigned colleges who helped us during the course of our audit visit.

8. Action Plan

Objective 1: There is a robust process to prepare, review and approve the Regional Outcome Agreement (ROA), including identifying local skills needs and establishing baselines against which progress with development towards a fully regional strategic approach can be compared in future years

The starting point for the 2016/17 ROA development was the Curriculum & Estates Plan 2015-2020 which sets out the direction of travel for GCRB's assigned colleges, with certain rationalisation of curriculum and estates. We reviewed the process to develop this and noted that it was comprehensive and include consideration of local skills needs, mapping of existing curriculum across the three assigned colleges, and consideration of estates rationalisation.

The next step was the production of a three year ROA for the period 2014/15 to 2016/17. The outputs and outcome targets in this were based on existing performance and working towards the Curriculum & Estates Plan's five year outcomes. This document has a range of supporting information and has been through a review process with the SFC to ensure that it meets their outcome agreement requirements. From our review of this document it provided a robust basis for identifying areas of change and improvement, and setting ROA targets.

The 2016/17 ROA was prepared based on the 3 year ROA, which had already identified the key outputs and outcomes to be measured for the Glasgow region. The process to prepare the 2016/17 ROA and agree targets included key staff in GCRB's assigned colleges working together to come up with the specific targets for each of the assigned colleges. These draft targets were reviewed through the Learning and Teaching Sub-Group (which has senior curriculum staff from the three assigned colleges on it), the Glasgow Colleges' Group (which has the principals from the three assigned colleges on it), and the Performance and Resources Committee (P&RC). The ROA was also taken to the GCRB Board for their approval. We consider that this was a robust process to prepare, review, and approve the ROA. The Sustainability Sub-Group was also involved in considering financial implications of the proposed ROA.

We noted that there was a ROA programme setting out what tasks had to be undertaken and by when to ensure that the ROA was developed by its deadline.

The ROA targets are working towards continuous improvement in a range of areas. Minor changes may allow the assigned colleges to make improvements towards meeting the ROA targets however there will be a stage where a major change in processes or structure will be required to drive improvement to a higher level. This will require significant effort and in order to focus resources it is important that GCRB consider its strategic priorities. We were informed that a Regional Strategic Plan in being developed during 2016/17 and this should help inform the priorities within the ROA where such action could be focussed.

Objective 2: There are appropriate mechanisms to ensure that the impact of the curriculum and estates review phase I (in progress) is taken into account in allocation of education provision and funding between assigned colleges

The Curriculum and Estates Plan 2015-2020 was taken into account in the development of the three year ROA, which fed into the 2015/16 and 2016/17 ROA developed and includes consideration of the allocation of educational provision. The funding between assigned colleges is agreed between the SFC and the assigned colleges, with input of the Sustainability Sub-Group containing senior finance staff from each of the assigned colleges. The Learning and Teaching Sub-Group and Glasgow Colleges' Group have also considered the impacts of the Curriculum and Estates Plan initiatives and actions have been reported to the P&RC and GCRB Board on these. These mechanisms are considered appropriate to ensure the audit objective has been met.

Objective 3: Processes and procedures are in place to obtain accurate and up-to-date information from assigned colleges to monitor progress against Regional Outcome Agreement targets on a regular basis

During 2015/16 the Interim Chief Officer devised a template for capturing information on progress by assigned colleges against the ROA targets. This template was emailed out to relevant staff in the assigned colleges for them to complete and return to the Interim Chief Officer. Once returned this was collated and then reported on quarterly to the Learning and Teaching Sub-Group, Glasgow Colleges' Group and P&RC and Board for monitoring. We considered this was done on a sufficiently regular basis.

Observation	Risk	Recommendation	Management Response
<p>We asked the Interim Chief Officer whether there were any processes to gain assurance that the information being submitted by the assigned colleges was accurate and were advised there were no such processes, with trust being placed on each college to ensure the figures were correct. We were advised by the Executive Director however that in the past information had been extracted directly from student registry systems and uploaded by each college into a portal where data was aggregated. We note that this was no longer in use but would be beneficial in providing some assurance over the figures submitted.</p>	<p>ROA progress data submitted may not be accurate, leading to insufficient time to undertake any corrective action to ROA targets and this could lead to ultimately ROA targets not being met</p>	<p>R1 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>Agreed. The Colleges' Learning and Teaching group will liaise with college MIS managers to provide regular in-year data returns.</p> <p>To be actioned by: Chair of Colleges Learning and Teaching Group</p> <p>No later than: November 2016</p>
Grade			3

Objective 4: The GCRB Board and Performance and Resources Committee regularly receive and review information measuring progress against Regional Outcome Agreement targets, including monitoring any corrective action

The P&RC regularly receives detailed updates on progress against ROA targets, including estimates and narrative, which it reviews. The minutes of the P&RC go to the GCRB Board. In addition the GCRB Board receives similar information so that it can have an understanding of progress being made against ROA targets.

Corrective action should be undertaken by individual colleges, however it is recognised that in many instances it is difficult to influence the ROA targets once the academic year has started. For example:

- Scottish Index of Multiple Deprivation (SIMD) rates depend largely on the number of successful applications received from those in the low SIMD areas with the majority of applicants starting in August or September so there is limited ability to influence this through smaller cohorts starting in January.
- Furthermore retention of SMID students can be affected by many factors such as family circumstances; and
- Attainment often depends on motivation and ability and this can be influenced by a range of factors such as the makeup of student cohorts and availability of student funding.



Glasgow Colleges' Regional Board

Financial Performance Monitoring (GCRB and Assigned Colleges)

Internal Audit Report No: 2016/03

Draft Issued: 30 May 2016

Final Issued: 3 June 2016

LEVEL OF ASSURANCE

Satisfactory

Content

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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	Issues which require the consideration of the Board or one of its committees.
Priority 2	Significant matters that the Executive Director can resolve.
Priority 3	Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.

1. Overall Level of Assurance

Satisfactory

System meets control objectives with some weaknesses present.

2. Risk Assessment

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

- If key stakeholders lose confidence in GCRB, leverage of current and future partnership resources for delivery of the ROA will be impaired (net risk score: 2); and
- If there is breakdown in performance in the assigned colleges (including academic quality management arrangements), the Regional Outcome Agreement targets may not be achieved (net risk score: 3).

3. Background

GCRB Budget

The GCRB's initial budgeted expenditure for 2015/16 was £295,000. The Interim Chief Officer's costs were top sliced from funding for the GCRB and the amount of this was advised by the SFC to the City of Glasgow College so that this can be accounted for in the GCRB financial statements. The remaining expenditure was processed by the City of Glasgow College using their finance systems on behalf of GCRB, and the City of Glasgow College applied to the SFC for a cash drawdown for these expenses as part of its monthly cash forecast return to SFC.

Assigned Colleges' Financial Performance

The GCRB's objectives include performance monitoring and once GCRB receives fundable body status it will have certain formal governance responsibilities for the three Glasgow region colleges. As a result it is important that the GCRB reviews the financial stability and financial performance of the three assigned colleges, as if any assigned college gets into financial difficulty this may have a direct impact on the delivery of the Regional Outcome Agreement.

Key financial information includes:

- Financial Forecast Returns (FFR) that are required to be submitted by colleges each year in June and which cover the forecast outturn for the academic year just being completed and the two following years; and
- In year management accounts from assigned colleges reporting on actual expenditure against budget (year to date) or against forecast outturn, which are aggregated.

4. Scope, Objectives and Overall Findings

The scope of this audit covered budget monitoring and management procedures in place for both GCRB and GCRB oversight of the assigned colleges, including reporting to the Board and the Scottish Funding Council.

The objective of our audit was to obtain reasonable assurance that budget monitoring and management procedures in place are adequate.

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

Objective	Findings			
	1	2	3	
The specific objectives of the audit were to obtain reasonable assurance that:	No. of Agreed Actions			
1. Budget monitoring and management policies and procedures are formally documented	Satisfactory	0	1	1
2. Responsibility for managing performance against budget is clearly set out	Good	0	0	0
3. There are regular budgetary control reports prepared for the Interim Chief Officer in relation to GCRB running costs	Good	0	0	0
4. Reports are requested from assigned colleges that are appropriate to monitor financial performance, and the risk of financial difficulties at each assigned college, and are: received on a timely basis; comprehensive enough to analyse current issues and the risk of financial difficulties arising; and identify what action is being undertaken to address any financial issues	Good	0	0	0
5. Adequate financial performance monitoring reports covering both the GCRB and assigned colleges are provided to the GCRB Board and the Performance and Resources Committee (P&RC) on a regular basis	Satisfactory	0	0	2
6. There is adequate and timely reporting of financial performance information to the Scottish Funding Council as requested	N/A	Not yet required pending Fundable Body status		
Overall Level of Assurance	Satisfactory	0	1	3
		System meets control objectives with some weaknesses present.		

5. Audit Approach

We discussed the budget monitoring and management processes with the GCRB's Interim Chief Officer. Financial performance monitoring reports were then reviewed to determine whether these were adequate. The arrangements in place for monitoring financial performance of the assigned colleges were discussed with the Vice Principal Resources at Glasgow Clyde College.

6. Summary of Main Findings

Strengths

- There is a process in place for preparing reports on GCRB expenditure and the financial performance of assigned colleges and these are reviewed by the P&RC; and
- The City of Glasgow College finance section and the Vice Principal Resources of Glasgow Clyde College are involved which reduces the administrative burden for the small team at GCRB regarding producing financial monitoring information and reports.

Weaknesses

- There is no formal agreement between City of Glasgow College and GCRB setting out what authorisations (including ensuring there is segregation of duties between the GCRB expenditure requester and the GCRB expenditure authoriser) are required to be received before processing GCRB expenditure transactions;
- There was the ability to amend the existing GCRB financial procedures around budget monitoring to better tailor these to reflect actual practice and the structure of GCRB;
- Although assigned colleges' financial monitoring reporting to the P&RC was in place there was the opportunity to improve and refine this, and agree on what reports should be provided to the P&RC over their annual cycle of meetings; and
- Assigned colleges' assumptions in the 2015/16 FFRs were not all the same and there would be benefit in aligning these, with the key assumptions applied being reported to the P&RC.

7. Acknowledgements

We would like to take this opportunity to thank the staff at the GCRB and assigned colleges who helped us during the course of our audit visit.

8. Action Plan

Objective 1: Budget monitoring and management policies and procedures are formally documented

Observation	Risk	Recommendation	Management Response		
<p>GCRB has a Financial Procedures Manual which includes 15 sections. Within section 13, 'Budgetary Control Procedures for Running Costs', the process for budget setting and monitoring is set out. This includes details of the annual budget timetable, responsibilities of the Executive Director and City of Glasgow College (CoGC) (which provides financial support to set the budget, process transactions and provide budget monitoring reports), the budget setting process, the staff budget, and budget monitoring and management checks. We reviewed these procedures and consider that they are adequate, however we noted that these were slightly different from what was being undertaken in practice.</p>	<p>If budgetary control procedures are not clearly set out this may lead to the budgetary control framework not being as robust as it might be</p>	<p>R1 Amend section 13 'Budgetary Control Procedures for Running Costs' of the GCRB Financial Procedures Manual to reflect the current budgetary control processes in use.</p>	<p>Agreed. A draft updated Financial Procedures Manual will be presented for agreement at the next meeting of the GCRB Audit Committee.</p> <p>To be actioned by: Head of Finance, City of Glasgow College</p> <p>No later than: August 2016</p>		
			<table border="1"> <tr> <td>Grade</td> <td>3</td> </tr> </table>	Grade	3
Grade	3				

Objective 1: Budget monitoring and management policies and procedures are formally documented

Observation	Risk	Recommendation	Management Response
<p>Although the GCRB Financial Procedures Manual sets out the requirements of CoGC regarding processing transactions and budgetary control this is not a legally binding document on CoGC. We asked the Head of Finance at the CoGC, who process expenditure on behalf of GCRB, whether there was any formal service level agreement between GCRB and CoGC setting out the requirements of CoGC and what authorisation was required before processing GCRB expenditure, including expense claims of the Executive Director/Interim Chief Executive and we were advised that there is no formal agreement in place. The Interim Chief Officer advised that he did not claim any expenditure reimbursement through GCRB, with any such expenditure being borne by the SFC. He advised that in future he would expect the GCRB Board Chair to sign off the expense claims for the Executive Director. Section 7 of the Financial Procedures Manual requires that the person requesting GCRB expenditure has this authorised by another person, however how this will work in practice is not set out, given that there are only two staff in the GCRB executive.</p>	<p>CoGC may pay amounts for GCRB which have not been appropriately reviewed or not been through a process appropriate segregation of duties (i.e. only checked and authorised by one person)</p>	<p>R2 Include in the Scheme of Delegation that the GCRB Board Chair must sign off the Executive Director's expense claims. In addition, formally agree with CoGC what authorisation they must receive before processing GCRB payments.</p>	<p>Agreed. A draft updated Financial Procedures Manual will be presented for agreement at the next meeting of the GCRB Audit Committee.</p> <p>To be actioned by: Executive Director, GCRB</p> <p>No later than: August 2016</p>
			<p>Grade 2</p>

Objective 2: Responsibility for managing performance against budget is clearly set out

Responsibility for managing performance against budget is clearly set out within the GCRB Financial Procedures Manual as resting with the Executive Director. This is considered appropriate.

Objective 3: There are regular budgetary control reports prepared for the Interim Chief Officer in relation to GCRB running costs**Budget Setting:**

For 2015/16 the budget was set through discussion of the GCRB Interim Chief Officer and Head of Finance at CoGC based on the different types of expenditure that were expected to be incurred, and with estimates of amounts based on known expenditure (such as for salaries) or what was considered an appropriate figure. This process was considered appropriate. The original budget was pulled together by CoGC Finance section and provided to the Interim Chief Officer.

Budget Monitoring:

The 'Budgetary Control Procedures for Running Costs' sets out the detailed requirements for budget monitoring, with the CoGC finance section preparing management reports each month (both in summary and detail) and the Interim Chief Officer / Executive Director reviewing these and following up any queries with the CoGC finance section. In addition there are details about preparation of forecasts of expenditure against budget to the year-end on a regular basis.

We noted that, at time of audit testing in early April 2016, that there had been regular budgetary control reports prepared for the Interim Chief Officer in relation to GCRB running costs, with schedules provided in October and December 2015 and January and February 2016 (March had yet to be provided at time of audit fieldwork). These were considered regular and adequate for their purpose.

- Objective 4: Reports are requested from assigned colleges that are appropriate to monitor financial performance, and the risk of financial difficulties at each assigned college, and are:**
- received on a timely basis;
 - comprehensive enough to analyse current issues and the risk of financial difficulties arising;
 - identify what action is being undertaken to address any financial issues

Reporting on assigned colleges' financial performance has developed over the course of 2015/16 after the Performance and Resources Committee (P&RC) was formed in October 2015. The Interim Chief Executive obtained agreement that a staff member from one of the assigned colleges would prepare financial reports for the P&RC, and they would request financial information from the other assigned colleges in order to prepare their reports.

To date the items presented to P&RC have been:

- 5 October 2015—Review of FFR forecasts, including analysis of financial performance and liquidity, prepared by City of Glasgow College;
- 14 December 2015 – Review of 16/17 FFR against 15/16 FFR prepared by Glasgow Clyde College; and
- 12 March 2016 – update on individual college forecast outturns for 15/16 (or YTD actual v budget for GKC) prepared by Glasgow Clyde College.

The P&RC and the Sustainability Sub-Group have discussed their requirements for the level of detail in future reports and staff are considering the information that should be reported to each meeting and the assigned college information that will be required to enable this. Further information is noted under Objective 5.

Objective 5: Adequate financial performance monitoring reports covering both the GCRB and assigned colleges are provided to the GCRB Board and the Performance and Resources Committee on a regular basis

GCRB Expenditure:

We note that adequate financial performance monitoring reports covering the GCRB expenditure were provided to the P&RC and the Board in 2015/16.

Assigned College Financial Performance:

Assigned colleges' financial monitoring reports are prepared for each meeting of the P&RC, which meets approximately quarterly, and this is considered timely. The minutes of the P&RC are provided to the GCRB Board.

We considered whether the reports provided to the P&RC regarding the assigned colleges were comprehensive enough to analyse current issues and the risk of financial difficulties arising. We reviewed the three financial monitoring reports provided to the P&RC.

- The first report (5 October 2015) highlighted some high level areas, but was not comprehensive enough to identify current issues and risks, with only a small section on 'risk analysis'.
- The second report (14 December 2015) set out movements between FFR balances (movements between 2016/17 and 2015/16 figures) but did not always explain why these movements had taken place. This included a section on 'Institutional Financial Sustainability Issues' outlining the main areas of concern, but this did not highlight what the assigned colleges were doing or planning to do regarding these issues.
- The third report (12 March 2016) was succinct, identifying variances (in outturns against original budget or actual versus budget year to date figures), reasons for these and providing outturns, and there was a short section on risk. This covered assigned colleges' financial performance for the first 6 months of the 2015/16. We reviewed the report to determine whether it identified what action was being undertaken to address any financial issues. This was the first report provided to the P&RC with such figures. From this report we noted that:
 - ◆ Glasgow Clyde College was forecasting a deficit but it was explained that this was being covered through the use of net depreciation which the SFC had approved. This would mean that although there would be a 'technical deficit' that the College would still have an operating cash flow breakeven or surplus;
 - ◆ CoGC were forecasting a surplus. The Interim Chief Officer advised that this was discussed at the P&RC March meeting and members were advised that the expected outturn forecast was still a surplus although this would be less than the surplus forecast as at January 2016;
 - ◆ Glasgow Kelvin College had a small adverse variance of £39,000 (they only provided a year to date actual versus budget figure and not an outturn forecast) which was not of a scale that required any corrective action to be identified.

We consider this was appropriate to allow monitoring of assigned college financial performance.

Observation	Risk	Recommendation	Management Response
<p>Objective 5: Adequate financial performance monitoring reports covering both the GCRB and assigned colleges are provided to the GCRB Board and the Performance and Resources Committee on a regular basis (Continued)</p> <p>Assigned College Financial Performance Reporting Reporting on assigned colleges has developed during 2015/16, and as noted under Objective 4 above the P&RC and Sustainability Sub-Group have discussed their requirements for the level of detail in future reports. Further consideration is needed around what will be reported to each meeting during the annual cycle. It is acknowledged that as a minimum each P&RC meeting should receive a forecast outturn/actual versus budget report similar to that provided in March 2016. Other items for consideration include an annual summary of FFRs and a summary of actual outturns.</p>	<p>Without formally setting out what financial reports should go to each P&RC meeting there is a risk that financial monitoring reports provided to the P&RC are insufficient.</p>	<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>	<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> <p>To be actioned by: Chair of Colleges Sustainable Institutions Group</p> <p>No later than: August 2016</p>
Grade			3

Objective 5: Adequate financial performance monitoring reports covering both the GCRB and assigned colleges are provided to the GCRB Board and the Performance and Resources Committee on a regular basis (Continued)

Observation	Risk	Recommendation	Management Response		
<p>FFR Assumptions We note that the 2015 FFRs prepared by the assigned colleges were prepared using different assumptions. To ensure that the P&RC can appropriately compare and analyse the FFR information it is important that there are the same key assumptions used and that these are clearly set out. If there are any different assumptions used then the impact of these should be set out.</p>	<p>Financial forecasts from assigned colleges may be misleading if they are not based on the same assumptions.</p>	<p>R4 Ensure that the same key assumptions are used by assigned colleges when preparing their FFR information. Key assumptions should be reported to the P&RC along with a high level explanation for why these assumptions were considered reasonable.</p>	<p>Agreed. The colleges' Sustainable Institutions Group will consider key assumptions and provide a report on these for consideration at the next meeting of the GCRB Performance and Resources Committee.</p> <p>To be actioned by: Chair of Colleges Sustainable Institutions Group</p> <p>No later than: August 2016</p>		
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Grade	3				

Objective 6: There is adequate and timely reporting of financial performance information to the Scottish Funding Council as requested

The Interim Chief Officer advised there is no requirement for the GCRB to undertake reporting of financial performance information to the SFC as it is not yet a fundable body and they also said that the SFC had not requested any in 2015/16.