



## **Audit and Compliance Committee annual report**

- To invite the Committee to consider and comment on the Audit and Compliance Committee draft annual report, which will be presented to the 21 June 2018 meeting of Council.

### **Recommendations**

- Consider the attached draft annual report.
- Identify any matters for inclusion which reflect the conclusion of the overview of performance and other items discussed.
- Identify the strategic issues and future priorities to be reflected in the annual report.
- Delegate authority to the Chair to finalise the annual report.



## **Audit and Compliance Committee annual report**

### **Purpose**

- 1 To invite the Committee to consider and comment on the Audit and Compliance Committee draft annual report (Annex A), which will be presented to the 21 June 2018 meeting of Council.

### **Background**

- 2 The Council requires the Audit and Compliance Committee to report on an annual basis, on the main activities of the Committee.
- 3 The 2018 Audit and Compliance Committee annual report will be presented to the 21 June 2018 Council meeting.

### **Annual evaluation process**

- 4 As part of the process of providing an overview, an evaluation of the performance of the Audit and Compliance Committee, and the internal and external audit function was undertaken.
- 5 The following performance evaluation questionnaires were completed:
  - Audit and Compliance Committee performance evaluation completed by Committee members, Council executive, internal audit and external audit. The consolidated responses on this questionnaire are listed in Appendix 1.
  - Internal audit performance evaluation completed by Committee members and Council executive. The consolidated responses are listed in Appendix 2.
  - External audit performance evaluation completed by Committee members and Council executive. The consolidated responses are listed in Appendix 3.
- 6 The key areas identified from the performance evaluation are outlined below.

### **Performance evaluation of the Audit and Compliance Committee**

- 7 Specific comments made by respondents are outlined in Appendix 1.

### **Internal audit performance evaluation**

- 8 Feedback was positive for Scott Moncrieff and it was noted that there were effective and appropriate internal audit processes.

## **External audit performance evaluation**

- 9 Audit Scotland were described as providing objective and challenging support to the Committee.

## **Areas for Improvement**

- 10 One respondent suggested that the Committee may wish to consider whether further performance measures could be identified to assist with evaluating the performance of the internal and external audit functions.
- 11 The Committee may wish to discuss any other possible improvements to support the Committee's effectiveness, e.g. training opportunities, scope of agenda, feedback to Council etc.

## **Next steps**

- 12 Any revisions and output arising from the Committee meeting will be incorporated into the draft annual report and distributed electronically to members for comment, in advance of presentation of the annual report to the Council.

## **Risk assessment**

- 13 There are no risks associated with this paper.

## **Financial implications**

- 14 There are no financial implications associated with this paper.

## **Publication**

- 15 This paper will be published on the Council website in edited form following the Committee meeting. The annexes and text not published are withheld from publication under the Freedom of Information (Scotland) Act 2002, Section 27, Prejudicial to the effective conduct of public affairs.

## **Recommendations**

- 16 The Committee is invited to:
- Consider the attached draft annual report
  - Identify any matters for inclusion which reflect the conclusion of the overview of performance and other items discussed

- Identify the strategic issues and future priorities to be reflected in the annual report.
- Delegate authority to the Chair to finalise the annual report.

### **Further information**

17 Contact: Martin Fairbairn (direct line: 0131 313 6524, email: [mfairbairn@sfc.ac.uk](mailto:mfairbairn@sfc.ac.uk)).



**This version of the paper is confidential**

## **Committee annual reports: Audit and Compliance Committee**

### **Purpose**

- 1 To provide the Council with a report of the work of Audit and Compliance Committee for the period July 2017 to June 2018.

### **Background**

- 2 The Council requires the Audit & Compliance Committee to report on an annual basis, on the main activities of the Committee.
- 3 The Audit and Compliance Committee has organisational and regulatory responsibilities, considering the SFC annual accounts and matters relating to the internal operations of the executive. In particular, those relating to risk management, corporate governance, internal audit, external audit and compliance with legislation and regulation. The Committee's remit is attached at Annex 1.

### **Areas of focus**

- 4 The annual report outlines the work of the Audit and Compliance Committee and includes an overview of:
  - Committee membership and meetings
  - The Committee's main activities – effectiveness and financial control of institutions and internally; risk management; and legal and regulatory compliance
  - The Committee's self-evaluation
  - Internal and external audit function and performance.

### **Membership and meetings**

- 5 The Committee comprises four Council members. Committee membership is attached as Annex 2.

- 6 Members' experience includes senior financial management; senior industrial/business management; and current working knowledge of the college sector.
- 7 Representatives from SFC's internal and external auditors. Members of the Council executive who support the work of the Committee also attend meetings, where appropriate.
- 8 The Committee met on four occasions during the reporting period and the minutes of each meeting were submitted to the Council Board.

### **Main activities**

- 9 The Committee's main activities are described below.

### ***Effectiveness and financial control***

- 10 In March 2018, the Committee considered SFC's whistleblowing policy and fraud response and were assured that appropriate responses are in place to deal with any potential incidences.
- 11 VFM was considered through internal and external audit and the internal audit plan covered financial controls and grant funding administration, as noted below. Also, in June 2018 the Committee considered a progress report on implementation of the actions in SFC's Best Value Improvement Plan.

### ***Financial Controls Self-Assessment***

- 12 The December 2017 meeting considered the internal audit report on the detailed self-assessment of the Council's financial controls. The Report concluded that key financial controls over income and receivables, expenditure and creditors, fixed assets and payroll were well designed and operating effectively and no areas for improvement were identified.

### ***Effectiveness and financial control – Internal***

- 13 (To be completed following 7 June 2018 ACC meeting, accounts)

### ***Risk management***

- 14 As the primary responsibility for risk management lies with the Council, the Committee is required to consider, and advise the Council, on the adequacy of the arrangements for the assessment and management of risk in relation to the achievement of SFC objectives, with particular regard to the Council's top-level risks. To this end, the Committee

receives SFC's Risk Register at every meeting and reviewed the Risk Management Strategy at the September 2017 meeting.

### ***Legal and regulatory compliance***

15 (To be completed following 7 June 2018 ACC meeting)

### **Self-evaluation of performance**

- 16 In compiling the Committee's annual report, self-evaluation questionnaires were completed by all four Committee members and two members of the Council executive. Feedback was also received from the external auditors.
- 17 Committee members were of the view that the Committee was well chaired and run and that the business of the Committee was well supported by SFC staff, internal audit and external audit.

### **Internal and external audit function and performance**

#### ***Internal audit***

- 18 During 2017-18, Scott Moncrieff carried out internal audit reviews of:
  - Corporate governance
  - Performance management
  - Financial controls self-assessment
  - Grant funding distribution
  - Monitoring of institutions
  - Follow up of previous internal audit recommendations
- 19 No critical or high priority recommendations result from the audits carried out during the reporting period.
- 20 The Committee was informed that of the eight recommendations outstanding at March 2018, six were partially complete and two not yet due. None of which were ranked as high risk.
- 21 Responses gathered from the Council executive regarding the internal audit performance of Scott Moncrieff indicated that Scott Moncrieff had carried out the audit function in a professional manner producing reports of high quality timeously.

### **External audit**

- 22 Responses gathered from the review of the external audit performance carried out by Audit Scotland indicated that there had not been any major issues of concern relating to the external audit function carried out by Audit Scotland.

### **Strategic issues and priorities**

- 23 The Committee identified the following issues and priorities for the forthcoming year:

- (to be completed following 8 June 2017 ACC meeting)

### **Risk assessment**

- 24 There are no risks associated with this paper.

### **Equality and diversity assessment**

- 25 An equal opportunity and diversity assessment has not been carried out.

### **Recommendation**

- 26 The Council is invited to note the Audit and Compliance Committee annual report.

### **Financial implications**

- 27 There are no programme fund or running cost implications associated with this paper which have not already been accounted for with the Council's current budget and budgetary planning.

### **Publication**

- 28 This paper will be published on the Council website in edited form following the Council meeting. The annexes and text not published are withheld from publication under the Freedom of Information (Scotland) Act 2002, Section 30, Prejudicial to the effective conduct of public affairs.

### **Further information**

- 29 Contact: Martin Fairbairn, Chief Operating Officer (direct line: 0131 313 6524, email: mfairbairn@sfc.ac.uk), or Sheila Meehan, Audit and Compliance Committee Clerk (direct line: 0131 313 6619, email: smeehan@sfc.ac.uk).

## **Remit of the Audit and Compliance Committee**

### **Responsibilities**

1. The Committee will consider the SFC annual accounts and matters relating to the internal operations of the executive, in particular those relating to risk management, corporate governance, internal audit, external audit and compliance with legislation and regulation.
2. The specific duties of the Committee are listed under the headings below:

### **Effectiveness and financial control**

- Consider SFC's annual financial statements prior to submission to the Council.
- Review the effectiveness of the Council's financial and other control systems.
- Consider the Council's policies on whistle-blowing and fraud and irregularity.
- Monitor the Council's arrangements to secure VFM, whether these are made via internal or external audit or other means.

### **Risk management**

- Consider and advise the Council on the adequacy of the arrangements for the assessment and management of risk in relation to the achievement of SFC objectives, with particular regard to the Council's top-level register of risks.
- The Board monitors the Council executive's management of the top-level register of risks and the Audit and Compliance Committee only need undertake this role if requested by the Board. However, so that the Committee can properly fulfil its remit under the previous bullet point, it will receive a copy of the risk register at each meeting and may review specific risks in detail if it considers that to be necessary.

### **Internal audit**

- Consider and advise the Council on the annual and longer term operating plans for internal audit and the resourcing of the internal audit function to deliver these plans.
- Consider and advise the Council on internal audit reports and monitor the implementation of approved recommendations.
- Monitor the effectiveness of internal audit.
- Tendering and appointment of internal audit.

### **External audit**

- Consider planned external audit activity.
- Consider and advise the Council on external audit reports and, where appropriate, report to the Council any issues from the external audit of the Council, and any matter that the external auditors bring to the attention of the Committee.
- Monitor the implementation of approved recommendations.
- Monitor the effectiveness of external audit.

### **Legal and regulatory compliance**

- Consider and advise the Council on the adequacy of the arrangements for the management of the Council's compliance with legislation and regulation, focusing on data security, freedom of information and health and safety, and covering other aspects as part of the Committee's risk management responsibilities.
- Advise the Board on the financial impact of new accounting policies, changes to the Scottish Public Finance Manual and any new laws and regulations.
- Consider and advise the Council on amendments to the Management Statement and Financial Memorandum between SFC and Scottish Government.

### **Other**

- Consider and report to the Council any other matters remitted to the Committee by the Council.

3. The Committee is an advisory body with no executive powers. However, it is authorised by the Council to investigate any activity within its terms of reference, and to seek any information it requires from staff in the conduct of its enquiries. The Committee is authorised to obtain independent professional advice if it considers this necessary. The Committee should be mindful of the cost of such resources.

**Audit and Compliance Committee membership**

**Membership**

David Alexander (Chair) (from November 2017)

Keith Nicholson

Caroline Stuart

Paul Little

**In attendance**

Representatives from Audit Scotland

Representatives from Scott Moncrieff

**SFC executive support**

John Kemp                      Interim Chief Executive, Accountable Officer

Martin Fairbairn              Audit and Compliance Committee Secretary; Chief  
Operating Officer

Lorna MacDonald              Director of Finance

Sheila Meehan                Audit and Compliance Committee Clerk; Clerk to  
the Council

Other members of the Council executive provide support as appropriate.

