

Audit and Compliance Committee Annual Report

- To provide the Council with a report of the work of the Audit and Compliance Committee for the period June 2019 to July 2020.

Recommendations

- The Council is invited to note the Audit and Compliance Committee Annual Report.

Financial implications

- There are no financial implications associated with this paper.

Audit and Compliance Committee Annual Report

Purpose

1. To provide the Council with a report of the work of the Audit and Compliance Committee for the period June 2019 to July 2020.

Background

2. The Council expects the Audit and Compliance Committee to report, on an annual basis, on its main activities.
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 Council. 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 Appendix 1.
4. The Audit and Compliance Committee's Annual Report can be found at the Annex; this includes information on the main activities of the Committee, the results of the Committee's annual evaluation, and a forward look to the priorities for the Committee for the forthcoming year.
5. The remit, membership and attendance of the Committee are appended to the Annual Report.

Risk assessment

6. There are no risks associated with this paper.

Equality and diversity assessment

7. The importance of achieving a gender balance, as well as reflecting other protected characteristics, is taken into account when considering the membership of SFC's committees.

Financial implications

8. There are no financial implications associated with this paper.

Recommendations

9. The Council is invited to note the Audit and Compliance Committee Annual Report.

Publication

10. This paper will be published on the Council website.

Further information

11. Contact: Martin Fairbairn, Chief Operating Officer, tel: 0131 313 6524, email: mfairbairn@sfc.ac.uk or Angela Seymour, Clerk to the Council, tel: 0131 313 6630, email: aseymour@sfc.ac.uk.

Audit and Compliance Committee Annual Report

Introduction

1. This is the Annual Report of the Scottish Funding Council's Audit and Compliance Committee. It sets out the Committee's activities for the period June 2019 to July 2020, the results of the Committee's self-evaluation, and a forward look to the priorities for the Committee for the forthcoming year.

Committee Remit

2. The Committee's remit (which can be found at Appendix 1) provides the main activities of the Committee. The Committee met its duties over the reporting period, as described in its remit, as follows.

Effectiveness and financial control

3. Value for money was considered through internal and external audit and the internal audit plan covered financial controls and grant funding administration. Also, in August 2020, the Committee considered a progress report on implementation of the actions in SFC's Best Value Improvement Plan.
4. The December 2019 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 generally well designed and operating effectively.
5. In March 2020 the Committee considered SFC's whistleblowing policy and fraud response, noting that no changes were required, as appropriate processes were in place to deal with any potential incidents.

Risk management

6. 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 March 2020 meeting.

Internal audit

7. During 2019-20 Scott Moncrieff carried out internal audit reviews of:
 - Workforce planning
 - Financial controls self-assessment
 - Grant Funding Distribution
 - Strategic planning
 - Strategic project funding
 - Equality and diversity
 - Business continuity planning
8. No critical recommendations resulted from the audits carried out during the reporting period.
9. The Committee was informed that of the six recommendations outstanding at August 2020, two were high risk but were in the final stages of completion at that point.
10. With effect from 1 April 2020 internal audit is being provided through a shared service arrangement led by Scottish Enterprise's in-house internal audit team (the other partners in which are Skills Development Scotland, South of Scotland Enterprise and Clyde Gateway).

External audit

11. The audit work undertaken on SFC's 2019-20 annual report and accounts is expected to result in Audit Scotland issuing an unqualified audit opinion in the independent auditors report.
12. During the year Audit Scotland presented the Annual Audit Plan 2019-20 and the Management Report 2019-20 for the Committee's consideration.

Legal and regulatory compliance

13. The Committee considered the SFC Legislative and Regulatory Schedule which reported on SFC's main legal compliance requirements. The Committee concluded that SFC had adequate arrangements in place to manage compliance with legislation and regulation.

Membership and attendance

14. Committee membership and attendance can be found at Appendices 2 and 3.

15. Members' experience is extensive and includes: accountancy; industry, commercial; current college background; and third sector.
16. Representatives from the internal and external auditors attend all meetings of the Committee. Members of the Council executive who support the work of the Committee also attend meetings where appropriate.
17. The Committee met on four occasions during the reporting period and the minutes of each meeting were submitted to the Council Board.

Performance Evaluation of Internal and External Audit

18. Committee members and Council executive were invited to provide their views on various aspects of the internal and external audit process and performance and the responses gathered were positive.

Committee Self-evaluation

19. Committee members and auditors were invited to provide their views on a range of factors relating to the work and effectiveness of the Committee and the combined results of the self-evaluation survey are detailed below.

Role and remit of the Committee

20. Members confirmed that the Committee's remit set out clearly the nature and scope of its responsibilities.
21. Feedback stated that the Committee's business continued to be well supported by SFC staff and that Committee members put their skills and experience to good use in contributing to the Committee's work.

Mode of operation and oversight of the financial reporting process

22. Members' feedback confirmed that the Committee had appropriate oversight and consideration of financial reporting, risks and internal controls.

Oversight of the audit processes

23. Members' feedback confirmed that the Committee actively considered the internal audit plan and reports. Audit recommendations were put into an action plan with timelines for completion which enhanced monitoring and

oversight, ensuring that members were fully sighted on any issues and on mitigating actions.

Risk management and legislative compliance

24. Members were content that the arrangements for risk management, control and governance had operated effectively throughout the reporting period.

Continuous improvement

25. The overall assessment of the performance of the Audit and Compliance Committee was positive.

Forward Look

26. Committee members considered the year ahead and noted the following areas of strategic priority for the Audit and Compliance Committee to focus on, in addition to the Committee's remit responsibilities:
- Importance of managing the changeover to the new internal audit arrangements from 2020-21.
 - Need for ongoing development of risk and assurance management.
 - Monitoring audit recommendations and action implementation.
 - Considering the Committee's oversight role regarding the financial challenges ahead, including in relation to the sectors.

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 Council, 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.
- Gain assurance through the internal audit process on the evidence used to measure and report on SFC's performance, including from the Performance Report and Outcome Agreement Guidance.

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)
Keith Nicholson (stood down November 2019)
Caroline Stuart
Paul Little (stood down November 2019)
Andy Kerr (commenced March 2020)

In attendance

Representatives from Audit Scotland
Representatives from Scott Moncrieff

SFC executive support

Karen Watt	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 (stood down November 2019)
Angela Seymour	Audit and Compliance Clerk: Clerk to the Council (commenced November 2019)

Other members of the Council executive provide support as appropriate.

Membership attendance

Member	13 June 2019	3 September 2019	11 December 2019	5 March 2020
David Alexander (Chair)	x	x	x	x
Keith Nicholson (stood down November 2019)	a	a	n/a	n/a
Caroline Stuart	x	x	x	x
Paul Little (stood down November 2019)	x	x	n/a	n/a
Andy Kerr (commenced March 2020)	n/a	n/a	n/a	x

x – in attendance

a - absent