

## **Audit and Compliance Committee Draft Annual Report (including Committee review of effectiveness of auditors)**

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

### **Recommendations**

The Committee is invited to:

- Consider the Audit and Compliance Committee Draft Annual Report.
- Identify any possible improvement actions flowing from the Committee's self-evaluation.
- Consider the Committee's remit and advise on any possible revisions.
- Identify any further areas for inclusion in the Committee's forward look.
- Delegate authority to the Chair of the Committee to finalise the report for presentation at the August 2020 Council Board meeting.

### **Financial implications**

- There are no financial implications associated with this paper.



## **Audit and Compliance Committee Draft Annual Report (including Committee review of effectiveness of auditors)**

### **Purpose**

1. To provide the Committee 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's Draft 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.
4. The remit, membership and attendance of the Committee are appended to the Draft Annual Report.

### **Committee Self-Evaluation - Summary of key findings**

5. Committee members and the Council executive are completing self-evaluation questionnaires, the results of which will be considered at the 7 August meeting and reflected in the annual report.

### **Committee review of effectiveness of auditors**

6. The questionnaires included questions on the effectiveness and performance of both internal and external auditors. At its previous meeting in March, the Committee met both auditors without the presence of the Council executive, the key points of which are recorded in the draft minutes of the March meeting (paper ACC/Min01). Taking together both the responses to the questionnaires and the March meetings with the auditors, from Coupled with Committee members and the Council executive are completing self-evaluation questionnaires, the results of which will be considered at the 7 August meeting and reflected in the annual report.

### **Next Steps**

7. Following discussion at the Committee meeting, the Annual Report will be finalised by the Chair of the Committee (including the text highlighted in yellow) and presented to the August 2020 Council Board meeting.

### **Risk assessment**

8. There are no risks associated with this paper.

### **Equality and diversity assessment**

9. 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**

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

### **Recommendations**

11. The Committee is invited to:
  - Consider the Audit and Compliance Committee Draft Annual Report.
  - Identify any possible improvement actions flowing from the Committee's self-evaluation.
  - Consider the Committee's remit and advise on any possible revisions.
  - Identify any further strategic priorities for inclusion in the Committee's forward look.
  - Delegate authority to the Chair of the Committee to finalise the report for presentation at the August 2020 Council Board meeting.

### **Publication**

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

### **Further information**

13. 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 Draft Annual Report**

### **Introduction**

1. This is the Draft 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 consider 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 there had been no change that year, and were assured that appropriate responses were in place to deal with any potential incidences.

### ***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
  - Strategic Planning
  - Strategic Planning funding
  - Equality and Diversity
  - Grant Funding Distribution
8. No critical recommendations result 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 resulted 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. Tbc after 7 August meeting

### ***Membership and attendance***

14. Committee membership and attendance can be found at Appendices 2 and 3.
15. Members' experience includes: accountancy; industry or commercial; and current college background.

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 will be considered at the 7 August meeting.

### **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 and that recommendations were put into an action plan with timelines for completion which ensured 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:

- [To be completed after meeting]



### 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.
- 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**

<b>Member</b>	<b>13 June 2019</b>	<b>3 September 2019</b>	<b>11 December 2019</b>	<b>5 March 2020</b>
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