

## **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 and 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 and attendance is attached at Annexes 2 and 3.

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. The Committee considered the SFC draft financial statements for the year ended 31 March 2018 and agreed that there were no matters relating to the draft annual report and accounts in respect of audit or internal control that prevented their approval.
14. SFC's Annual Governance Statement was considered at the June 2018 Committee meeting and the Committee agreed that the Council's

financial and other control systems have operated effectively during the year ended 31 March 2018.

15. The Internal Audit Annual Report, considered at the June 2018 Committee meeting, confirmed that the Scottish Funding Council had a framework of controls in place that provides reasonable assurance regarding the organisation's governance framework, internal controls, effective and efficient achievement of objectives and the management of key risks.

### ***Risk management***

16. 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***

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

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

19. 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.
20. 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***

21. 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
22. No critical or high priority recommendations result from the audits carried out during the reporting period.
23. 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.
24. 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***

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

### **Committee Remit**

26. The Committee confirmed that it had discharged its responsibilities for the year in relation to the remit of the Audit and Compliance Committee.

## **Plans for 2018-19**

27. The Committee has agreed that the following should be the focus of internal audit activity in 2018-19. These are consistent with the rolling three-year internal audit plan and the Council's risk register:

- Health and Safety
- Financial controls self-assessment
- Budget setting
- Grant funding distribution
- Data security and information governance
- General Data Protection Regulation Health-check.

## **Risk assessment**

28. There are no risks associated with this paper in itself.

## **Equality and diversity assessment**

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

## **Recommendation**

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

## **Financial implications**

31. 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**

32. This paper will be published on the Council website following the Council meeting.

## **Further information**

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





### Annex 3

#### Audit and Compliance Committee attendance

	David Alexander (Chair)	Marlene Wood (Chair)	Keith Nicholson	Paul Little	Caroline Stuart
7 September 2017		x	a	x	x
12 December 2017	x		x	x	a
6 March 2018	x		tc	x	tc
7 June 2018	x		a	x	x

**x – in attendance**

**a – absent**

**tc – attended by teleconference**