
AUDIT AND COMPLIANCE COMMITTEE ANNUAL REPORT

PURPOSE

1. To provide the Board with a report of the work of the Audit and Compliance Committee for the period August 2021 to July 2022.

RECOMMENDATIONS

2. The Board is invited to note the Audit and Compliance Committee Annual Report.

FINANCIAL IMPLICATIONS

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

RISK ASSESSMENT

4. There are no risks directly associated with this paper; reference is made to the corporate risk register.

IMPACT ASSESSMENTS

EQUALITY AND DIVERSITY

5. No assessment of equal opportunities and diversity has been undertaken for this paper.

ISLAND COMMUNITIES

6. Recommendations in this paper do not have an impact on island communities.

CARBON REDUCTION

7. Recommendations in this paper do not have an impact on carbon reduction.

PUBLICATION

8. This paper will be published on the Scottish Funding Council website.

FURTHER INFORMATION

9. Contact: Tiffany Ritchie, Deputy Director Finance and Operations, email: tritchie@sfc.ac.uk and Sybille Rush, Clerk to the Audit and Compliance Committee, email: srush@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 August 2021 to July 2022 including the Committee's self-evaluation and a forward look to the Committee's priorities for the next year.
2. The Committee's remit can be found at Appendix 1.
3. The Committee's assessment of the discharge of its responsibilities over the year is detailed below.

EFFECTIVENESS AND FINANCIAL CONTROL

4. Value for money was considered through internal and external audit with the internal audit plan covered financial controls and grant funding administration.
5. In August 2021, the Committee considered the outcomes from a self-assessment of SFC's compliance with the principles of Best Value, which confirmed that Best Value in the organisation was well-developed.
6. At its December 2021 meeting, the Committee considered an internal audit report on the Council's key financial controls which found that SFC has continued to maintain an effective financial control environment. Audit testing confirmed high levels of compliance across the financial control framework.
7. In March 2022, the Committee considered SFC's whistleblowing policy and fraud response and were assured that appropriate responses were in place to deal with any potential incidences. The Committee noted that there had been no changes to the policy during the year.

RISK MANAGEMENT

8. 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, regarding the Council's top-level risks. To this end, the Committee receives and reviews the SFC's Risk Register at every meeting and the SFC's Risk Management Framework and Guidance annually.

INTERNAL AUDIT

9. During 2021-22, our internal auditors carried out 5 internal audit reviews. All reports, except for real-time audit reviews, are graded 1 to 5. Grade 1 represents low priority for attention, increasing to Grade 5 for high priority for attention.
10. The specific reviews and their grades were;
 - Climate Change and Sustainability graded at 3,
 - Key financial controls graded at 2,
 - Distribution of grant funding graded at 1, and
 - People and Culture graded at 2.
11. In addition, two real-time audits were carried out:
 - Apprenticeship Programmes, and
 - Outcome Agreements.
12. The follow-up of internal audit recommendations ensures that satisfactory progress is being made in implementing agreed recommendations. The follow-up exercise undertaken by internal audit during the year has identified overall satisfactory progress in the implementation of internal audit recommendations.

EXTERNAL AUDIT

13. The audit work undertaken on SFC's 2021-22 annual report and accounts resulted in Audit Scotland issuing an unqualified audit opinion in the independent auditor's report.
14. During the year Audit Scotland presented the Annual Audit Plan 2021-22 and the Management Report 2021-22 for the Committee's consideration.

LEGAL AND REGULATORY COMPLIANCE

15. At its August 2022 meeting, the Committee considered the SFC's Legislative and Regulatory Schedule which sets out 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

16. Committee membership and attendance can be found at Appendices 2 and 3.
17. Members' experience covers accountancy; industry/ commercial; and university and college sector backgrounds.
18. 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.
19. 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

20. 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

21. Committee members and auditors have completed a self-evaluation on the work and effectiveness of the Committee and the combined results were considered at the meeting on 22 August.

ROLE AND REMIT OF THE COMMITTEE

22. Members confirmed that the Committee's remit set out clearly the nature and scope of its responsibilities.
23. 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

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

OVERSIGHT OF THE AUDIT PROCESSES

25. 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

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

CONTINUOUS IMPROVEMENT

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

FORWARD LOOK

28. Committee members considered the year ahead and, in addition to the Committee's remit responsibilities, noted the following areas of strategic priority for the Committee:
- Continued development of the Risk Assurance Framework and risk appetite.
 - Cyber security including the inclusion of clear lines of responsibility and accountability at SFC Executive and Board/Board Committee level.
 - Use and monitoring of SFC strategic funds.
 - Introduction of a new paper relating to oversight of all key accounting policies being adopted.
 - Maintaining scrutiny and oversight of the rolling audit action plan and the timescales for addressing any recommendations arising.
 - Maintaining scrutiny and oversight of business continuity arrangements.
 - Transition to working with new Audit Scotland lead and the new external auditors.
 - Financial security of the sector.
 - Embedding of new SFC Finance team and its interaction with the ACC.
 - Effects of pandemic and demographics in Scotland and volume of student numbers coming here to study from abroad including any knock-on the effects.
 - Any new relevant policy developments.

APPENDIX 1: 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.

APPENDIX 2: AUDIT AND COMPLIANCE COMMITTEE MEMBERSHIP

MEMBERSHIP

David Alexander (Chair)
Caroline Stuart
Sheila Duncan
Veena O'Halloran (commenced May 2022)
Andy Kerr

IN ATTENDANCE

Representatives from Audit Scotland (external audit)
Representatives from Scottish Enterprise (internal audit)

SFC EXECUTIVE SUPPORT

Karen Watt:	Chief Executive; Accountable Officer
Lorna MacDonald:	Director of Finance; Committee Secretary (April 2021 to August 2021)
Chris Brown:	Interim Director of Finance; Committee Secretary (September 2021 to April 2022)
Richard Maconachie:	Director of Finance; Committee Secretary (May 2022 to present)
Tiffany Ritchie:	Deputy Director Finance and Operations (commenced September 2021)
Angela Seymour:	Clerk to the Council; Audit and Compliance Committee Clerk (until September 2021)
Sybille Rush:	Group Co-ordinator Finance; Audit and Compliance Committee Clerk (October 2021 to present)

Other members of the Council executive provide support as appropriate.

APPENDIX 3: AUDIT AND COMPLIANCE COMMITTEE MEMBERSHIP ATTENDANCE

MEMBERSHIP ATTENDANCE

Member	August 2021	December 2021	5 March 2022	June 2022
David Alexander (Chair)	x	x	x	x
Sheila Duncan	x	x	x	a
Caroline Stuart	x	x	x	x
Veena O'Halloran (commenced May 2022)	-	-	-	a
Andy Kerr	a	a	a	a

x – in attendance

a - absent