



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 2016 to June 2017.

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/audit; senior industrial/business management; and current working knowledge of the college sector.
- 7 Representatives from SFC's internal and external auditors and SFC's Chief Executive attend all meetings of the Committee. Members of the Council executive who support the work of the Committee also attend meetings, where appropriate.
- 8 The Committee met on three 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 2017, 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 March 2017 the Committee considered a report on SFC's compliance with the principles of Best value and the results of a Best Value self-assessment exercise undertaken by the executive.

Financial Controls Self-Assessment

- 12 The March 2017 meeting considered the internal audit report on the detailed self-assessment of the Council's financial controls. The Council's self-assessment did not identify any major control weaknesses over the key financial control areas and testing of a sample of controls supported the results of the self-assessment and confirmed that there were no major control weaknesses.

Effectiveness and financial control – Internal

- 13 The Committee considered the SFC draft financial statements for the year ended 31 March 2017 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 2017 Committee meeting and the Committee agreed that the Council's financial and other control systems have operated effectively during the year ended 31 March 2017.

Risk management

- 15 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 reviewed SFC's Risk Register and Risk Management Strategy at the September 2016 meeting.

Legal and regulatory compliance

- 16 The Committee considered the annual report on legal compliance which reported on SFC's main legal compliance requirements.
- 17 The Committee concluded that SFC had adequate arrangements in place to manage compliance with legislation and regulation.

Self-evaluation of performance

- 18 In compiling the Committee's annual report, self-evaluation questionnaires were completed by two Committee members and two members of the Council executive. Feedback was also received from the external auditors.
- 19 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

- 20 During 2016-17, Scott Moncrieff carried out internal audit reviews of:
- Internal Communications
 - Edinburgh College
 - Financial controls self-assessment
 - Grant funding administration compliance
 - Financial reporting within the college sector

- Follow up of previous internal audit recommendations
- 21 Based on work done, no control objectives were assessed as BLACK (fundamental failures) and there were no grade 5 actions raised during the year.
- 22 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

- 23 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

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

Strategic issues and priorities

- 25 The Committee identified the following issues and priorities for the forthcoming year, consistent with internal and external audit plans:
- Performance Management
 - Financial controls self-assessment
 - Procurement
 - Grant funding distribution
 - Monitoring of institutions
 - European funding
 - Specific governance-related procedures.

Risk assessment

- 26 There are no risks associated with this paper.

Equality and diversity assessment

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

Recommendation

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

Financial implications

- 29 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

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

Further information

- 31 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 (from 1 May 2016)

Marlene Wood (Chair)
Keith Nicholson
Caroline Stuart
Paul Little

In attendance

Representatives from Audit Scotland
Representatives from Scott Moncrieff
John Kemp, Interim Chief Executive, Accountable Officer

SFC executive support

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| 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.