

AUDIT and RISK COMMITTEE

Draft Report of the Audit and Risk Committee

Ref. 29-22

DATE:	3 May 2022
TITLE OF REPORT:	Draft Report of the Audit and Risk Committee
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PURPOSE:	To summarise the work undertaken by the Audit and Risk Committee for the year to 31 st July 2021 and the period between that date and the signing of the audited Financial Statements.
KEY RECOMMENDATIONS/ DECISIONS:	Committee to review the document and to recommend its approval to the Board, for forwarding to Audit Scotland and the Scottish Funding Council.
RISK	<ul style="list-style-type: none"> • That the College does not meet its statutory duties in relation to following audit requirements • That the College does not clear audit recommendations • That the College does not identify and mitigate risks
RELEVANT STRATEGIC AIMS:	<ul style="list-style-type: none"> • Highest quality education and support. • Sustainable behaviours.
SUMMARY OF REPORT:	<p>The Committee met the requirements during the financial year, but the loss of two members and the postponement of a full Board meeting, both events occurring after the year end, caused an issue with meeting the requirements of the 2016 Code of Good Governance. The issues noted in the Financial Statements were quickly addressed.</p> <p>The Report summarises the work undertaken in the year to 31st July 2021 and the actions taken after the year end. Due to governance issues, the audited Financial Statements were not approved by the Board until March 2022.</p>

**Report of the Audit and Risk Committee to the Board of Management
for the year ended 31st July 2021
(Approved at 9 May 2022 Audit Committee meeting)**

Introduction

The particular circumstances of governance issues faced by the College 2020/21, delayed the approval of the Financial Statements, which has resulted in this report being delayed. These circumstances also necessitate comment on the period following the year of review to give context.

Meetings and Composition of the Committee

The Audit and Risk Committee met on five occasions during the financial year and minutes and associated papers were presented to the Board of Management.

The dates of the meetings were: 24 August 2020, 2 November 2020, 15 February 2021, 10 May 2021 and 1 July 2021.

The delay in the appointment of Board members in the summer of 2021 resulted in the cancellation of the meeting scheduled to be held on 6th September 2021. Subsequent to this, there was a meeting held on 17th November 2021 with meetings also being held in February and March 2022.

There was also a joint meeting of the South Lanarkshire College (SLC) and the Lanarkshire Regional Strategic Board (RSB) Audit and Risk Committees on 16th November 2021.

Ms Lesley Glen chaired the Committee until her resignation from the Board on 7th September 2021. She did, though Chair the meeting with the RSB on 16th November 2021 as she had been a party to the agreement to have the meeting.

Mr Craig McLaughlin was appointed to the Board on 4th November 2021 and became Chair of the Audit and Risk Committee on 30th November 2021. Mr Paul Hutchinson assumed the position of the Chair of the Committee in the intervening period from 7th September to 30th November 2021.

Ms Yvonne Johnston was a member of the Committee through the year until the date of her resignation from the Board on 3rd May 2021. Mr Paul Hutchinson was a member of the Committee throughout the year. Due to his move to assume the position of Acting Chair the Board of Management on 7th September 2021, he stepped down from the Audit and Risk Committee as the Chair of the Board cannot sit on the Audit and Risk Committee.

Ms Heather Anderson and Mr Declan Hogan were both appointed to the Board on 4th November 2021 and became members of the Audit and Risk Committee on 30th November 2021. It should thus be noted that whilst the College fulfilled its obligations re Audit and Risk Committee membership to allow it to comply with the Code of Good Governance for the year

**Report of the Audit and Risk Committee to the Board of Management
for the year ended 31st July 2021
(Approved at 9 May 2022 Audit Committee meeting)**

to 31st July 2021, it did not have the required number of Committee members to make it quorate for the period 7th September to 30th November 2021. This was noted in the Financial Statements for the year to 31st July 2021.

The Committee attendance record for the year was as follows:

Board member	24 Aug 20	2 Nov 20	15 Feb 21	10 May 21	1 July 21
L Glen	X	X	X	X	X
Y Johnston		X	X		
P Hutchinson			X	X	X
C Gibb (as Chair of Finance & Resources Committee)		X			
Also attending:					
A Kerr (Chair of the Board)	X	X	X	X	X
Principal	X	X	X	X	X
Depute Principal	X		X	X	X
Head of Finance	X	X	X	X	X
Financial Accountant	X	X		X	
Head of HR					X

The College Financial Statements for the year ended 31st July 2020 were presented to the November 2020 meeting of the Committee and Ms Clare Gibb, as Chair of the Finance and Resources Committee, attended the meeting as a representative of that Committee. In addition, Ms Glen also attended the November 2020 meeting of the Finance and Resources Committee which recommended approval of the audited Financial Statements to the Board of Management as a representative of the Audit Committee.

As regards the Financial Statements for the year to 31st July 2021, these were presented to the February 2022 meeting of the Committee. Ms Clare Gibb as Chair of the Finance and Resources Committee, attended the meeting as a representative of that Committee. In addition, Mr Craig McLaughlin also attended the February 2022 meeting of the Finance and Resources Committee which recommended approval of the audited Financial Statements to the Board of Management as a representative of the Audit and Risk Committee.

**Report of the Audit and Risk Committee to the Board of Management
for the year ended 31st July 2021
(Approved at 9 May 2022 Audit Committee meeting)**

Terms of Reference

The Committee was renamed the Audit and Risk Committee in May 2021 to reflect the increasing importance of risk management in the work of the Committee and in the work of the Board of Management overall. The remit of the Committee was amended to reflect the wish of the Board to have a consistent theme across all Board Committee remits. This remains in draft form subject to approval at the Board meeting scheduled for 7 June 2022. A review of its responsibilities was undertaken and the finalisation of the process will form part of the workplan for the Committee in the 2021/22 financial year.

Internal Audit

Scott-Moncrieff were appointed as internal audit service providers in February 2015 following a tender process for the three academic years to 31 July 2017 plus a possible extension to the contract for a further three years; this extension was agreed by the Committee, and this extension was subsequently agreed. Given the practical implications of the pandemic, the Board took the decision to further extend the Scott-Moncrieff contract until July 2021. Scott-Moncrieff's Internal Audit Plan was reviewed and the Audit Needs Assessment for 2020/21 was approved at the August 2020 meeting of the then Audit Committee.

It should be noted that Scott-Moncrieff changed their name to Azets on 7th September 2020 but this did not involve any change in substance of the contract or the management of the College Internal Audit service. All following references to the internal audit service providers will refer to the firm as "Azets".

The areas covered by Azets in respect of the year to 31st July 2021 were as follows:

Three reviews as part of the plan agreed with the Audit Committee:

- Expenditure and Payables
- Curriculum Planning and Online Resources
- Student Experience
- Follow-up of prior recommendations

Mandatory audits:

- Collection of Student Activity Data 2019/20 (Credits)
- Student Funding & Educational Maintenance Allowances (EMAs) 2019-20

The Committee noted that of the three reports issued by Azets during the year which contained control objective assessments, all being assessed as "Moderate" or "Low" with none being graded as "Critical" or "High".

Note that the mandatory audits for activity and student support in the academic year 2020/21 were undertaken by Azets in September / October of 2021.

**Report of the Audit and Risk Committee to the Board of Management
for the year ended 31st July 2021
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Internal Audit (continued)

Azets Annual Report

A summary of all internal audit work undertaken during the year 2020/21 is dated August 2021 and contained in the Azets Annual Report, which was presented to, and approved by, the Audit and Risk Committee on 17 November 2021, and is attached as Appendix 1. It should be noted that this report covered the work undertaken by the firm per the agreed Intern Audit service contract and not the additional work undertaken by the firm as a separate assignment.

To summarise their findings, they stated:

In our opinion South Lanarkshire College has 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.

It should be noted that Azets also provide VAT consultancy to the College. The Committee is satisfied that the nature of VAT advice received is not in conflict with the other work carried out by Azets, as the former is undertaken by their self-contained VAT consultancy department.

Additional Assignment

The College received Whistleblowing allegations in September 2020 and, after initial review and investigation, these were considered by the Board in November 2020. At this meeting, the Board commissioned Azets to undertake a forensic investigation into the allegations, separate from its contracted work, and undertaken by a separate specialist department within the firm.

The additional assignment report was presented to a specially convened meeting of the Audit and Risk Committee on 1st July 2021. The firm reported that they had been able to make a thorough investigation into the allegations but, at the time of reporting, had not found anything that was "actionable". They advised that they could continue to investigate but that this may not bring any further evidence to the fore nor represent value for money. The report contained several recommendations, both as a result of what had been identified during the assignment and by reference to good practice. The College accepted the report in full and drew up an audit recommendations log that was specific to this assignment. It was agreed that progress against the actions intended to address the recommendations would be presented to the Audit and Risk Committee routinely with actions only be discharged with the approval of the Committee. It was agreed that the College would examine and update, where required, all

**Report of the Audit and Risk Committee to the Board of Management
for the year ended 31st July 2021
(Approved at 9 May 2022 Audit Committee meeting)**

of the appropriate finance-related policies and associated procedures and its Financial Regulations.

Actions to address the recommendations will continue to be undertaken during academic/financial year 2021/22 and therefore will be reported upon in that year's Annual Report.

Internal Audit Contract Renewal

The contract for internal audit provision was put out to tender via APUC. The Committee agreed that they wished an increase in work undertaken from 33 to 40 days via the contract and this was duly written into the tender documentation. The contract is for three years, plus an option of extending this by one year.

Following the evaluation exercise, a recommendation to award the contract to Henderson Loggie was due to be considered at the Committee meeting of 6th September 2021. This meeting was cancelled at short notice and the appointment was not ratified until the full Board meeting held on 17 November 2021 resulting in a gap in the work of the Internal Audit service. It should be noted that Azets did undertake the review of student activity and student support in September and October 2021 as the last audits of their engagement.

Audit Scotland Technical Bulletins

Audit Scotland produces quarterly bulletins which include details of audit and finance-related matters and Circulars issued by the Funding Council. These Bulletins are presented to Audit and Risk Committee meetings to inform the work of the Committee and to provide information on sectorial and wider public sector audit matters to members.

Other Audits Presented to the Committee

Financial and non-financial audits, such as those undertaken by the College Quality Audit Group and external bodies such as Skills Development Scotland are presented to the Committee for information and review.

National Fraud Initiative

The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The College duly submitted their data for the 2020/21 exercise and 114 matches were reported. These have all been investigated and closed satisfactorily with no further action being required.

**Report of the Audit and Risk Committee to the Board of Management
for the year ended 31st July 2021
(Approved at 9 May 2022 Audit Committee meeting)**

External Audit

From financial year 2001/02, the responsibility for arranging and monitoring the external audit of the further education sector passed to Audit Scotland. Following a tendering exercise undertaken by that organisation, Audit Scotland appointed Mazars LLP as external auditors for the five years commencing with financial year 2016/17. Due to the COVID pandemic, Audit Scotland have extended that contract by a further 12 months which means that they will be in place to audit the 2021/22 financial year. It is noted that the contract for the service for the 5 years from the financial year 2022/23 has been awarded by Audit Scotland to Azets.

Report on the Financial Statements for the year to 31st July 2021

Compliance with the 2016 Code of Good Governance

The College reported in the Governance Statement that it prepared for the Financial Statements that it had not complied with the Code of Good Governance in four areas: Legal minimum membership; availability of minutes and the service of a clerk to the Board; induction; and engagement with internal auditors. These matters are detailed in the Financial Statements and in the Annual Audit Report prepared by Mazars.

The Audit and Risk Committee will monitor progress against the Governance Improvement Action Plan to ensure that all issues identified are addressed and will report to the Board of Management.

Audit Opinion

The external auditors are required to provide opinion in four areas. The opinions expressed in those four areas were as follows:

Opinion on financial statements

In our opinion the accompanying financial statements:

- *give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the College's affairs as at 31 July 2021 and of its surplus for the year then ended;*
- *have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and*
- *have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).*

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

**Report of the Audit and Risk Committee to the Board of Management
for the year ended 31st July 2021
(Approved at 9 May 2022 Audit Committee meeting)**

**Opinion prescribed by the Auditor General for Scotland on audited part of the
Remuneration and Staff Report**

We have audited the parts of the Remuneration and Staff Report described as audited. In our opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

**Opinions prescribed by the Auditor General for Scotland on Performance Report and
Governance Statement**

In our opinion, based on the work undertaken in the course of the audit:

- *the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; and*
- *the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.*

A copy of Mazars Annual Audit Report for the year to 31 July 2021 is attached as App'x 2.

Consolidated Financial Statements for The Lanarkshire Board

South Lanarkshire College is a legal entity with a Board of Management which is responsible for the governance and management of the College. In addition, it has been determined that each multi-college region should produce regional consolidated financial statements in addition to individual college audited accounts. In order to effect the production of Regional accounts, SLC provides the relevant information to New College Lanarkshire.

The governance issues outlined above at South Lanarkshire College delayed the approval of the consolidated Financial Statements for the year to 31st July 2021. These were approved in April 2022 and were unqualified.

**Report of the Audit and Risk Committee to the Board of Management
for the year ended 31st July 2021
(Approved at 9 May 2022 Audit Committee meeting)**

Regional Assurance

The Principal, as the Chief Executive Officer of South Lanarkshire College, is required to give an annual Certificate of Assurance to the Accountable Officer of the Lanarkshire Region which is then forwarded to the Funding Council.

Although, as part of the route to dissolution of the Region, SLC staff members other than the Principal did not have to attend Regional Board and Committee meetings, this arrangement has now been reversed and the appropriate Audit, Finance, and full Board meetings of the Regional Strategic Body to provide information as required.

Risk Management

During the year, it was agreed that the College review its Risk Management arrangements and a refreshed set of procedures was approved at the May 2021 meeting of the Committee. The main change was that it was agreed to have a Strategic Risk Register and to have risk considered in a more formal fashion by each College cost centre.

The Regional Board requested in November 2015 that a Regional Risk Register be drawn up and a Regional Risk Group was set up to undertake this work, comprising representatives from both colleges, including SLC Head of Finance. The Regional Risk Register is updated quarterly and presented to the Audit and Risk Committees of South Lanarkshire College and of the Regional Strategic Board.

Meeting of the Audit and Risk Committee and the Internal and External Audit Providers

In line with best practice and included in the remit of the Audit and Risk Committee, an opportunity for the internal and external audit service providers to discuss any matters which were pertinent members of the Committee, but without the presence of College management, was given at the November 2020 and February 2022 meetings of the Committee. There were no matters of concern raised and both sets of auditors gave positive feedback.

**Report of the Audit and Risk Committee to the Board of Management
for the year ended 31st July 2021
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Opinion

The Committee has overseen the internal and external audits of the College based on audit needs and appropriate guidance from bodies such as the Scottish Funding Council, Colleges Scotland and Audit Scotland.

Based on reports received from internal and external auditors, and on information received from College management, the Committee is of the opinion that the internal financial and management systems are adequate and effective. Its arrangements for securing economy, efficiency and effectiveness are also considered adequate and effective. The Committee does, though, recognise the recommendations that have flowed from the Azets investigation and the more general issues with governance that have affected the College in the post-July 2021 period.

The Committee is also of the opinion that there is an ongoing process for identifying, evaluating and managing the College's significant risks and this can be reported in the Annual Report and Financial Statements.

However, whilst, for the year of review (i.e. to 31st July 2021), the Committee is of the opinion that the Board of Management's duties, as described in the Statement of the Board of Management Responsibilities (pages 18 and 19 of the Financial Statements), were satisfactorily discharged and that Audit Scotland's Code of Audit Practice and the relevant parts of the Scottish Public Finance Manual had been complied with, the events subsequent to the year-end have to be recognised and commented upon in this Report..

The Committee has acknowledged the issues that led to difficulties in meeting the requirements of the Code of Good Governance in the latter part of 2021 (i after the year end of 31st July 2021) which resulted in a delay in the production and approval of the Financial Statements for 2020/21. It also recognises that these issues will also have to be reported in the 2021/22 Financial Statements.

The Committee and College management are working closely with the external auditors to mitigate the effects of the issues with a view to bringing the production and approval of the Financial Statements back to the original deadline of 31st December. The Committee is also working with College management to ensure that any governance issues are appropriately addressed and it will be reporting on progress to each meeting of the Board.

Craig McLaughlin
Chair

Audit and Risk Committee of the Board of Management
9 May 2022