

# **South Lanarkshire College**

## **Audit Committee (Board of Management)**

**Meeting to be held on  
Monday 20th February 2017  
at 17.30 hours in the Boardroom**

### **AGENDA**

1. Apologies.
2. Declaration of Members' Interest.
3. Minutes of Previous Meeting 14 November 2016
4. Matters Arising.
5. Internal Audit Reports Messrs. Scott-Moncrieff
  - Student Activity (Credits) (Appendix 1)
  - Corporate Governance (Appendix 2)
6. Risk Management
  - Review of Risk Management Policy and Procedures (Appendix 3)
  - College Risk Register as at 12 Jan. 2017 (Appendix 4)
7. Remit of the Audit Committee (Appendix 5)
8. External Audit
  - Fees 2016/17 (Appendix 6)
  - Consolidated Accounts for the Region (Appendix 7)
9. Audit Scotland Technical Bulletin
  - October / December 2016 (Appendix 8)
    - A Professional Judgement Framework (Appendix 8A)
    - Practice Note 10 (Appendix 8B)
10. Regional Finance Group (Appendix 9)
11. Any Other Competent Business.

**South Lanarkshire College**  
**Audit Committee (Board of Management)**  
**Held on 20<sup>th</sup> February 2017**

<b>Present</b>	Paul Hutchinson (Chair) Pauline Robertson
<b>In Attendance</b>	Stewart McKillop (Principal) Chris Brown – Scott Moncrieff (internal audit) Angus Allan Keith McAllister
<b>Apologies</b>	Robert Ralston Angela Martin

**1. Declarations of Members' Interests**

Ms Robertson declared her interest as Contracts Manager of CITB, and Mr McKillop declared his interest as a member of The Regional Strategic Board.

**2. Minutes of the Previous Meeting**

The Minute of the meeting held on 14<sup>th</sup> November 2016 had previously been agreed by the Board of Management.

**3. Matters Arising**

Mr Hutchinson assumed the Chair.

Members noted that the Audited Financial Statements could not be published until they had been laid before, and approved by, the Scottish Parliament. Mr Allan informed the meeting that a Freedom of Information request for a copy of the 2015/16 accounts had been received and, following consultation with the Information Commissioner, the request for a copy of these accounts had been turned down at this time. He was confident that this would not be a breach of the appropriate Act.

Mr McKillop updated members on the recently announced indicative funding for 2017/18. The Region had received a 1.8% uplift on 2016/17 and increased capital funding although, on the latter, it was noted that this only brought the Region back to where it was two years ago.

#### 4. Internal Audit

##### Student Activity (Credits) – October 2016

Mr Brown led members through the report, highlighting the new control assessment and other presentational aspects of Scott-Moncrieff reports.

He expanded upon the one point raised, this being on an area where there had been a change of guidance. The impact on credits claimed had been very minor. His firm had given the College a “clean” audit certificate.

Mr McKillop expanded upon the systems used by the College to record activity and that the College’s move to more electronic enrolment meant that the incidence of errors was much decreased. Members welcomed the technological developments implemented by the College, and added that the presentation and formatting of the reports was both informative and easily-understood.

**Members noted the content of the report and approved the relevant management responses as being appropriate.**

##### Corporate Governance – February 2017

Mr Brown took members through this Report, particularly highlighting the areas of work which incorporated the College’s relationship with The Lanarkshire Regional Board. The Regional aspect to internal audit was an area that New College Lanarkshire’s internal auditors would also be addressing.

Three improvement actions were identified –

- The need to update the Audit Committee Terms of Reference re membership and the Regional aspect;
- The need to update the College’s Risk Policy to incorporate the Regional aspect;
- The need to update the College’s Financial Regulations and some allied policy and procedure documents.

Mr McAllister confirmed that the first two had been addressed since the audit work and that there was now a calendar in place for the review of policies. This was noted by the Committee. The College was hoping that a template for financial regulations would be issued centrally for the sector, but this was not thought to be unlikely and the College would be addressing this over the Spring / Summer.

Mr McAllister commented that the work undertaken was extremely comprehensive and the low number of points raised on the review of approximately thirty documents was comforting. He highlighted that a thorough review of governance had been undertaken by the Clerk to the Board during the recruitment exercise for new Board members and in the addressing of general governance issues raised for the sector by Audit Scotland. This was also noted by the Committee who commended the work done overall on governance.

**Members noted the content of the report and approved the relevant management responses as being appropriate.**

## 5. Risk Management

- **Risk Management Policy and Procedures**

Mr McAllister stated that the document had been updated in 2015 and the only update deemed necessary was the addition of the Regional aspect to the area. This had been added as a separate section to the document to give appropriate emphasis.

**Members agreed to propose approval of the updated College risk management policy and procedures to the Board.**

- **College Risk Register as at 12<sup>th</sup> January 2017.**

Mr McAllister took members through the latest Risk Register and drew their attention to the Commentary that had been asked for at the last Board of Management meeting. The Commentary noted the changes to risks, viz the splitting of the risk on financial sustainability into short and long-term risks, and the impact of Brexit on this.

It was noted that 5 risks had lower rank scores and two were higher since the previous review.

**Members duly approved the work being done on risk as being appropriate and agreed to present the documents to the next meeting of the Board of Management.**

## 6. Draft Remit of the Audit Committee

Mr McAllister stated that two minor changes had been made to the Remit. The first was a restriction on membership in that the Chair of the Board could not be a member of the Audit Committee, and the second incorporated the Committee having a monitoring role re the College's responsibilities in respect of the Code of Good Governance for Scotland's Colleges.

**The changes were agreed and it was also agreed that the Remit should go forward for approval at the next meeting of the Board of Management.**

## 7. External Audit 2016/17

Mr McAllister presented the letter from Audit Scotland, informing the College of the indicative price range for the audit of the 2016/17 financial statements. The new audit providers, Mazars, will attend the May meeting of the Committee and they may well broach the level of the actual fee at that time for consideration by the Committee.

It has been noted that Mazars will also audit New College Lanarkshire. South Lanarkshire College executive would like different audit partners and managers to deal with the two audits and will make this representation to Mazars.

Members noted the requirement for Regional accounts re 2016/17 and reference was made to the paper produced by the Financial Accountant in this regard. Discussion ensued on the complications that the Regional structure gave to the exercise, as highlighted in the paper. It was noted that with SLC a self-governing body with its own audited financial statements, control is firmly with the SLC Board of Management. It is thus unclear as to who would prepare the remit, and on what basis. Mr Hutchinson asked if there was a similar regional structure in Scotland and Mr McKillop replied that there wasn't.

**With approval of the Committee, management agreed to pursue the matter further with the Scottish Funding Council, in conjunction with the Region / NCL, and report back to members.**

#### **8. Audit Scotland Technical Bulletin 2016 / 4**

Members noted the Bulletin and the associated papers on professional judgement and the application of international standards on auditing. Ms Robertson expressed thanks for the documents which provided good background knowledge for members, particularly re the respective responsibilities in connection with judgement. It was noted that the link to good governance and ethics, combined with a questioning stance by Board members, dovetailed well with the theme of the recent Board information day.

#### **9. Regional Finance Group**

Members noted the work being done in the Regional Finance Group which was currently looking at joint procurement initiatives and the harmonisation of policies and procedures. Mr McAllister stated that the Finance functions of the two Colleges had always worked well together and there was a common purpose that reflected a spirit of cooperation. Members asked to be kept informed of developments.

There being no further competent business the Chair closed the meeting by thanking everyone for their attendance.

# SOUTH LANARKSHIRE COLLEGE

## AUDIT COMMITTEE MEETING

Monday 20<sup>th</sup> February 2017

### REPORT FROM THE HEAD OF FINANCE

#### 1 Purpose & Introduction

To inform the members of the Audit Committee of developments in the area of audit and finance.

#### 2 Executive Summary

##### ○ Internal Audit – Scott-Moncrieff

- Scott-Moncrieff will present their report on student activity, **Credits Data Return**, which was undertaken in October 2016. This is attached as **Appendix 1**.

Members should note the Conclusion on page 3, “In our opinion, controls over the collection of data and the preparation of Credits data returns and accompanying College certificate are adequate and effective.”

- Attached as **Appendix 2** is the report on **Corporate Governance**. This was an extensive audit which covered, inter alia, the relationship between the College and its Regional partner and with The Regional Strategic Body itself. The audit involved an exhaustive review of College governance arrangements, policies and procedures. It has given College management an assurance that these are being dealt with in an effective manner with the points raised being minor in nature and easily addressed.

##### ○ Risk Management

- Attached as **Appendix 3** is an updated draft of the College’s Risk Management Policy and Procedures document. This document was last updated quite recently in September 2015 and the only proposed change is the addition of Section 10 which addresses the new arrangements re risk and the Lanarkshire Regional Strategic Body.
- Attached as **Appendix 4** is the latest update of the College’s Risk Register. Members should note the main changes to identified risks being the situation re Brexit, which will undoubtedly impact the FE sector in the immediate future. The Register shows a new risk, that being re short term financial stability. As requested by the Board of Management in November, there is now a brief commentary on the Register incorporated.

# SOUTH LANARKSHIRE COLLEGE

## AUDIT COMMITTEE MEETING

Monday 20<sup>th</sup> February 2017

### REPORT FROM THE HEAD OF FINANCE

- **Remit of the Audit Committee**
  - Attached as **Appendix 5** is a draft update to the Remit of the Committee. This update incorporates the added duty of monitoring the Board's responsibilities re the Code of Good Governance for Scotland's Colleges (see 5.1) and a clarification on Membership (see 2.0) which specifies that the Chair of the Board cannot be a member of the Audit Committee.
  
- **External Audit**
  - Attached as **Appendix 6** is the notification from Audit Scotland of the indicative fees for the audit of the College re the year 2016/17. The actual fee will be the result of discussion with the new external audit providers, Messrs Mazars, but the indicative note has an expected fee of £13,960, being an increase of 13.9% from 2015/16.
  - The College has had an initial contact with Mazars, but they are unable to supply us yet with a contract for the audit. They have agreed to attend the next meeting of the Audit Committee in May 2017.
  - There is a requirement for consolidated accounts for the Lanarkshire Region for 2016/17. There has been no specific guidance as to the form that these should take, nor of any reference to a legal requirement. The College has pursued the matter with the Scottish Funding Council and is awaiting a response.
  
- **Consolidated Accounts**
  - Attached as **Appendix 7** is a briefing paper prepared by the College's Financial Accountant on consolidated accounts. It should be noted that there has been no guidance issued on this matter as yet.
  
- **Bulletin from Audit Scotland**
  - Attached as **Appendix 8** is an extract from Technical Bulletin 2016 / 4 issued by Audit Scotland. The header page details the issues raised therein that Audit Committee members should note.
  
- **Regional Finance Group Update**
  - The Regional Finance Group met on 1<sup>st</sup> February. Attached as **Appendix 9** is the agenda for the meeting for the information of members.

# SOUTH LANARKSHIRE COLLEGE

## AUDIT COMMITTEE MEETING

Monday 20<sup>th</sup> February 2017

### REPORT FROM THE HEAD OF FINANCE

#### 3 Conclusions and Recommendations

It is recommended that Members of the Audit Committee:

- Review and accept the internal audit reports and approve the management responses as being acceptable.
- Review and propose approval to the Board of the updated College risk management policy and procedures
- Review the updated Audit Committee remit document and propose its acceptance to the next meeting of the Board of Management
- Note the Risk Register and approving the recent movements therein
- Note the update on the external audit arrangements for 2016/17, including the briefing note on consolidated accounts
- Note the contents of the *Technical Bulletin* issued by Audit Scotland and also note that the arrangements re professional judgement are to be discussed at the May meeting of the Committee
- Note the work being undertaken by the Regional Finance Group



<b>Version dated:</b>	<b>Draft of 11 January 2017</b>
<b>Author:</b>	<b>Head of Finance</b>
<b>Approved by:</b>	<b>Audit Committee (TBC) &amp; Board of Management (TBC)</b>
<b>Date of next review:</b>	<b>February 2019</b>

### 1. Purpose

This policy and its procedures detail and communicate the College's approach to risk management.

### 2. Policy Statement

**South Lanarkshire College will effectively manage risk, taking all reasonable practicable steps to ensure the protection of staff, students, assets and the reputation of the College.**

### 3. Scope

- 3.1 This Risk Management policy forms part of the College's internal control and corporate governance arrangements.
- 3.2 The policy explains the College's underlying approach to risk management, and details the roles and responsibilities of the Board of Management, the Audit Committee, the Risk Management Group, the Senior Management Team, and other key parties.
- 3.3 The policy outlines key aspects of the risk management process, and identifies the main reporting procedures.
- 3.4 This policy details the process that the Board of Management will use to evaluate the effectiveness of the College's internal control procedures.
- 3.5 Risk management identifies and manages the risks that threaten the ability of the College to meet its objectives. The College will identify, monitor and aim to eliminate the range of threats to its activities, understand where there are risks, and develop cost effective counter measures. These risks may be strategic, operational or financial.
- 3.6 This policy should be read in conjunction with the College's full range of policies and procedures covering Equalities, including Equality, Inclusiveness, Disability and the Race and Gender Equality Schemes.

# South Lanarkshire College – Risk Management Policy and Procedures

## 4. Responsibilities

- 4.1 The Chair of the Board of Management, the Principal, and the Board of Management have the responsibility for overseeing risk management within the College.
- 4.2 Depute and Associate Principals have functional responsibility to manage and mitigate against those risks under their responsibility, individually and collectively.
- 4.3 The Principal and the Senior Management Team have the responsibility to support, and implement policies approved by the Board of Management.
- 4.4 The Head of Finance, as a representative of the Risk Management Group, is responsible for the construction and maintenance of a risk register which makes conservative and prudent recognition and disclosure of the financial and non-financial implications of risks.
- 4.5 College Management Team members are responsible for producing and reviewing departmental risk registers detailing the top risks in their area of operations. This includes implementation of the management of these risks.
- 4.6 College Managers are responsible for documenting departmental risks following meetings with staff, reflecting these in departmental operational plans and encouraging and embedding good risk management practice within their area of activity.
- 4.7 The Risk Management Group (RMG), which reports to the Audit Committee, is responsible for assessing the top risks facing the College and developing strategies to manage that risk and reporting progress to the Audit Committee.
- 4.8 All staff are responsible for encouraging and embedding good risk management practice within their area of activity.

## 5. General principles

### 5.1 Role of the Board of Management

The Board of Management has a fundamental role to play in the management of risk. Its role is to:

- Provide the authority and responsibility for the establishment, maintenance, support and evaluation of the Risk Management Policy
- Set the tone and influence the culture of risk management within the College
- Delegate the overall implementation of risk management to the Senior Management Team
- Know about the most significant risks facing the organisation.

### 5.2 Role of the Senior Management Team:

- Implementation of the Risk Management Strategy
- Overall co-ordination of risk management
- Promotion of an holistic approach to risk management
- Report risks to the Risk Management Group, via the Head of Finance, including those raised by departments and faculties via the annual operational planning exercise
- Ensure appropriate levels of awareness throughout the organisation

## South Lanarkshire College – Risk Management Policy and Procedures

### General principles (continued)

#### 5.3 Role of the College Management Team:

- Co-ordinating and ensuring that the operational objectives are implemented in line with the Risk Management strategy
- Be aware of risks which fall into their area of responsibility, the possible impacts these have, and monitor outcomes against the risks identified ensuring that procedure notes detail corrective action to minimise risk
- Report systematically and promptly to senior management any perceived new risks or failures of existing control measures
- Report on current 'active' risks highlighting mitigating actions and effect towards risk reduction.

#### 5.4 Role of Internal Audit:

- Ensuring the effectiveness of organisational and financial control systems, including monitoring performance against quality assurance standards.

#### 5.5 Role of Audit Committee:

- To advise the Board of Management on the concepts and requirements of risk management.
- To act as a catalyst for risk management activity across the College.
- To ensure appropriate audit work is performed on risk management
- Bringing higher level risks to the attention of the Board of Management
- To review new risks or failures of existing control measures
- To review the 'probability' and 'impact' scoring on a regular basis
- To review the adequacy of internal control systems designed to minimise risk
- To receive the reports from the Risk Management Group and make appropriate recommendations to the College's Senior Management Team, which will effectively improve systems of control.

## South Lanarkshire College – Risk Management Policy and Procedures

### General principles (continued)

#### 5.6 Role of the Risk Management Group:

- To develop and implement the College's risk management policy
- To compile the College's main risk register
- To monitor risk registers affecting the College which may be initiated or maintained by external bodies (e.g. re new build projects)
- To identify, from the risk register, the top risks faced by the College
- To establish a formal link between the main risk register and the risk registers in each department's/faculty's operational plan
- To regularly review the 'likelihood' and 'impact' of the top risks and report progress to the Audit Committee
- To review reports of the Senior Management Team and College Management Team.
- Overall co-ordination of risk management
- To review impact and mitigating factors i.e. actions for risks occurring and risk reduction/elimination on the risk register.
- To maintain the Board of Management's confidence that risk is being managed effectively within the College and that solutions to identified risks are in place and are appropriate.
- Via the Head of Finance, to report the status of risk management and the risk register to the Audit Committee on a quarterly basis, and to the Board of Management bi-annually.

#### 5.7 Role of College Staff:

- Understand their accountability for individual risks
- Understand how they can enable continuous improvement of risk management and risk awareness
- Report systematically and promptly to a member of the College Management Team or Senior Management Team any perceived new risks or failures of existing control measures.

## South Lanarkshire College – Risk Management Policy and Procedures

### 6. Implementation of risk management

- 6.1 Development of a range of Policy and Procedures to ensure corporate risks are managed in an efficient and sustainable manner.
- 6.2 The adoption of common terminology in relation to the definition of risks and risk management.
- 6.3 The establishment of College-wide criteria for the measurement of risk, linking the threats to their potential impact and the likelihood of their occurrence together with a sensitivity analysis, impacted by mitigating actions.
- 6.4 A decision on the level of risk to be accepted, together with tolerance levels expressed in terms of measurable outcomes.
- 6.5 A decision on the level of risk to be covered by insurance.
- 6.6 Each department produces an operational plan which feeds from the College strategic plan and which requires to be completed to include all departmental risks. The risks from these operational plans are collated by the Head of Finance on behalf of RMG and are taken to RMG for discussion and inclusion in the College risk register, should they be deemed sufficiently material
- 6.7 The departmental operational plans including the departmental risks are discussed in quarterly department meetings with any changes to departmental risks notified to the Head of Finance.
- 6.8 Development of risk management and mitigating plans for all significant risks, to include a designated 'risk owner' who will be responsible and accountable for managing the risk in question.
- 6.9 The Risk Management Group (RMG) will consist of the Head of Finance (Chair); the Heads of Department of HR, Facilities and MIS; one of the three Associate Principals; the Depute Principal; the Assistant Head of Finance; the Curriculum Manager in charge of Quality Assurance (or an appropriate person with an overview of quality within the College); and other members of staff as appropriate from specific areas across the College. The RMG will meet at least bi-monthly.
- 6.10 The responsibility for risk assessing estates and equipment is overseen by the College's Health & Safety Committee (HSC) rather than the RMG. The HSC report to the CMT and the Estates Committee of the Board of Management.
- 6.11 An annual report of the operation of the policy, management of risk and top risks faced by the College will be made to the Board of Management in the quarter to September to tie in with the information required for the production of the College's financial statements.
- 6.12 Key risk indicators will be identified and closely monitored on a regular basis.
- 6.13 Risk management arrangements will be reviewed by the RMG on a quarterly basis with a full re-assessment on an annual basis. The Quality Audit Group will review the process on an annual basis.

## South Lanarkshire College – Risk Management Policy and Procedures

### 7. Register of risk

7.1 The current College risk register is attached as Appendix One.

7.2 The scores shown on the risk register range from one (1) to four (4) against each criteria of likelihood and impact. The likelihood and impact scoring is multiplied together to provide the risk factor.

<b>LIKELIHOOD</b>	<b>Unlikely</b>	<b>Possible</b>	<b>Likely</b>	<b>Very Likely</b>
<b>% Chance of Occurring</b>	< 20%	21% - 50%	51% - 90%	91% - 100%
<b>Score</b>	1	2	3	4
<b>IMPACT</b>	<b>Low</b>	<b>Medium</b>	<b>High</b>	<b>Very High</b>
<b>Health &amp; Safety</b>	Exposure contained immediately	Exposure contained after prolonged effort	Exposure contained after prolonged effort and external assistance; potential of casualties.	Major incident with potential fatalities
<b>Regulatory / Legal Action</b>	Minor breaches by individual	Fine but no disruption to teaching / normal business	Fine <b>and</b> disruption to teaching / normal business	Large fine and disruption over an extended period
<b>Staff &amp; Staffing</b>	Staff complaints	Complaints by a no. of staff or via trades unions	Significant adverse effect across the College	Conflict with trades unions
<b>Reputation</b>	Letter in local press	Series of articles in local press	Extended adverse publicity in local press, or article in national media	Extensive and sustained negative national media coverage
<b>Financial</b>	Minor cost or loss of income (< £5,000)	Medium cost of loss of income (£5,001 - £25,000)	Large one-off cost or loss of income (£25,001 - £50,000)	Serious one-off cost or loss of income; sustained impact of similar financial amount (£50,001 +)
<b>Management</b>	Can be managed within existing management staff and workload	Will require concerted effort across several departments to minimise the impact	Event can be endured, but resolution will require the mobilisation of a specific management team.	Resolution will require expert external assistance to avert threat to the College's sustainability.
<b>Score</b>	1	2	3	4

## South Lanarkshire College – Risk Management Policy and Procedures

- 7.3 The risk factor is calculated as: **impact x likelihood**  
and will be classified as high, medium or low risk.

(H) high	12 - 16
(M) medium	5 - 11
(L) low	1 - 4

Risk factors on the risk register are shown for both gross risks before controls and risk mitigation procedures and residual risks after the controls and risk mitigation procedures.

In addition to the risk register, a one page summary of the risk register details risk ratings from the register and the movement in risk scores since the register was last reported. The Head of Finance reports the summary and the full risk register to the Audit Committee on a quarterly basis and the summary risk register to the Board twice per year.

## South Lanarkshire College – Risk Management Policy and Procedures

### 8. Measurement of risk and monitoring process

- 8.1 The measurement process is used to periodically report the status and impact of operational risks. The measurement process provides the raw information that allows managers to be 'proactive' rather than 'reactive' in managing any impact during operational activity.
- 8.2 Risk measurement provides managers with a mechanism to extract data from risk areas, and compile useful information in order to monitor and control the risks that affect them.
- 8.3 Risk appetite is defined as the level of risk that the College is prepared to accept before action is deemed necessary to reduce it. Within the College the risk appetite has been quantified as follows;

Risk appetite	Level of risk	Action required
Willing to accept a residual risk score of 1 to 4	Low	Risks which should be monitored by the RMG
Willing to accept a residual risk score of 5 to 11	Medium	Risks to be brought to the attention of SMT and the Board of Management
Willing to accept a residual risk score of 12 to 16	High	Risks to be reported to, and monitored by, the Board of Management

### 9. Risk escalation

- 9.1 Risk management should not be seen as the responsibility of the few. Members of staff and students alike must feel that they have the power to engage with the process of risk management from all levels.
- 9.2 Staff and students in the first instance should highlight their risk concern to any member of the SMT who will then complete a risk escalation form using the form detailed in Appendix 2 to draft details of the concern. This should then be passed to the Head of Finance on behalf of the RMG who will identify the most suitable person (the risk owner) to investigate the risk.
- 9.3 The concerns raised in the risk escalation form can then be addressed by the risk owner and subsequently, should the need arise, be brought before the RMG for inclusion in the College risk register.
- 9.4 Escalation of material departmental risks into the College risk register is performed by the RMG following a review of the risks included in the departmental operating plans by the Head of Finance based upon his judgement of material risks.



## South Lanarkshire College – Risk Management Policy and Procedures

### 10. Lanarkshire Region risk arrangements

10.1 The Lanarkshire Regional Strategic Body (RSB) will be accountable for the risk arrangements for the Lanarkshire Region, via a Lanarkshire Regional Strategic Risk Management Group (RSRMG). The RSRMG will comprise appropriate representatives from New College Lanarkshire, South Lanarkshire College and the Regional Board.

10.2 A Regional Strategic Risk Management Strategy Framework will be drawn up and the RSRMG will be responsible for meeting the requirements of this Strategy framework and reporting to the Audit Committee of the RSB.

10.3 South Lanarkshire College's Head of Finance will report on the workings of the RSRMG to the College's RMG and to the Audit Committee of the College. The Head of Finance will also be responsible for input to the RSRMG from both of these bodies.

10.4 The **Vision** and **Purpose** of risk arrangements as stated in the Strategy document are as follows:

#### 10.5 **Vision:**

- To deliver the aspirations of Lanarkshire Region and the realisation of our strategic objectives by creating and protecting public value through the management of risk.

#### 10.6 **Purpose:**

- To Create and protect value through demonstrable achievement of objectives and improvement in performance.
- To address uncertainty by explicitly taking account of uncertainty, the nature of uncertainty, and how it can be addressed.
- To ensure we are responsive to change by continually sensing and responding to change as external and internal events occur.
- To facilitate continual improvement of our organisations by developing and implementing strategies to improve risk management maturity.

# South Lanarkshire College – Risk Management Policy and Procedures

## Appendix 1 – Example of Current Risk Register

South Lanarkshire College Risk Register		Date of review 02-Apr-15 Next review due 21-May-15			Risk Appetite: Risk appetite definition: The level of risk that an organisation is prepared to accept, before action is deemed necessary to reduce it.								
Key:		Scores 1 - 4			Scores 5 - 11								
Low		Scores 12 - 16			Willing to accept a residual risk score of 1-4								
Medium					Willing to accept a residual risk score of 5-11								
High					Willing to accept a residual risk score of 12-16								
RISK DEFINITION		RISK			RESIDUAL RISK								
Ref and link to Q, I.s and Strategic Plan (ref SP #)	Risk Description & Effect	Appetite for Risk	Likelihood	Impact	Risk Level	Controls, Risk Mitigation and Monitoring Arrangements in Place Currently	Likelihood	Impact	Risk Level	Actions Planned	Deadline	Responsibility for Risk / Responsibility for Actions Planned	
<b>FINANCE</b>													
1	<b>College cannot maintain financial stability</b>											<b>Head of Finance</b>	
Link to QIs 6.4 / 8.2. Link to SP 3	<ul style="list-style-type: none"> <li>* If cashflow is compromised, College could close;</li> <li>* Staff, students and other stakeholders lose confidence;</li> <li>* College experiences student retention problems;</li> <li>* College has insufficient funds for recurring expense and equipment replacement;</li> <li>* overspend of ring-fenced student support funds.</li> <li>* Activity per RoA is not split by College - there is a lack of clarity as to funding.</li> </ul>	Low	3	4	High	<ul style="list-style-type: none"> <li>* Rigorous budget setting procedures;</li> <li>* Budget monitoring by senior management and Board of Management with corrective action taken where necessary;</li> <li>* Financial Regulations and associated internal controls;</li> <li>* Effective internal and external audit;</li> <li>* arms-length trust set up and arrangements made to transfer annual surpluses.</li> </ul>	3	4	High	<ul style="list-style-type: none"> <li>* College has approached SFC re the allocation of additional activity - likely to be additional ESF activity allocated to SLC in 2014/15;</li> <li>* FE sector is pushing SFC to address current shortfall in student funding, and to amend the methodology SFC re all aspects of recurrent grant funding which will include the addressing of recurring student support shortfall.</li> </ul>	Additional activity & add'l student support funds - Apr. 2015; Issue of final SFC funding allocation for 2015/16 - April 2015.		
2	<b>Failure of financial processes and controls.</b>											<b>Head of Finance</b>	
Link to QIs 6.1 / 6.2 / 8.2 Link to SP3	<ul style="list-style-type: none"> <li>* Procedures and processes are not robust and / or staff do not follow procedures.</li> <li><b>Effect:</b></li> <li>* Staff and management do not make the correct decisions/ mismanagement occurs;</li> <li>* Failure to detect fraud;</li> <li>* College incurs liability through staff falling foul of Bribery Act;</li> <li>* College fails to adhere to ONS reclassification requirements.</li> </ul>	Low	2	3	Medium	<ul style="list-style-type: none"> <li>* Evaluate effectiveness of controls through variance reporting;</li> <li>* Annual programme of internal and external audit, as determined by Board of Management and external bodies, with these being monitored by the Audit Committee;</li> <li>* System in place to analyse performance via Funding Strategy Group;</li> <li>* Constant review of student funding arrangements; * Student funds audited by internal &amp; external auditors; * Annual guidance given by SAAS and Scottish Funding Council;</li> <li>* Anti-Bribery and Whistleblowing Policies in place;</li> <li>* Audit Committee membership comprised of non-College staff;</li> <li>* low number of recommendations in internal audit reports;</li> <li>* Finance calendar incl. schedule of management meetings now drawn up; responsibilities now clarified.</li> </ul>	1	3	Low	<ul style="list-style-type: none"> <li>* Anti-bribery &amp; Whistleblowing Policies to be reviewed by HR Committee.</li> </ul>	* May 2015	Head of HR	

# South Lanarkshire College – Risk Management Policy and Procedures

## South Lanarkshire College Risk Register

### Key:

Low	Risks which should be monitored by the Risk Management Group :	Scores 1 - 4
Medium	Risks to be brought to the attention of SMT and the Board of Management:	Scores 5 - 11
High	Risks to be reported to, and monitored by, Board of Management:	Scores 12 - 16

Date of review <b>02-Apr-15</b>
Next review due <b>21-May-15</b>

### Risk Appetite:

Risk appetite definition: The level of risk that an organisation is prepared to accept, before action is deemed necessary to reduce it.

Willing to accept a residual risk score of 1-4	Low
Willing to accept a residual risk score of 5-11	Medium
Willing to accept a residual risk score of 12-16	High

RISK DEFINITION	Risk Description & Effect	Appetite for Risk	RISK			Controls, Risk Mitigation and Monitoring Arrangements in Place Currently	RESIDUAL RISK			Actions Planned	Deadline	Responsibility for Risk / Responsibility for Actions Planned
			Likelihood	Impact	Risk Level		Likelihood	Impact	Risk Level			
3	<b>Failure to maximise allocated activity re Government training programmes / EU-funded courses; failure to retain major public / private contracts.</b>											<b>Depute Principal / Head of Finance</b>
Link to QIs 2.1 / 2.2 / 5.3 / 8.1 / 8.2 / 9.3 Link to SP 2 and 3	* Loss of income where targets on start numbers, attendance, achievement and progression are not met; * Financial viability of the College threatened; * Potential loss of future activity awards where achievement / performance is below target, leading to lesser chance of winning future bids	Low	3	3	Medium	* Funding Strategy Group monitors income and delivery on a monthly basis; * SDS Working Group set up; * Programmes to be reported on as "separate line" in Management Accounts. * Monitoring of training agency income & achievement via "milestones" at Funding Strategy Group, SMT and CMT	2	3	Medium			
<b>HUMAN RESOURCES</b>												
4	<b>Loss of key staff; failure to recruit suitably qualified staff</b>											<b>Head of Human Resources</b>
Link to QIs: 3.3 / 7.3 / 7.4 / 7.5 Link to SP 2 and 3	* Undirected decision making; * Possible loss of staff confidence; * Resources (particularly management) not utilised in most effective way; * low number of senior management positions means absences or departures may have proportionately greater effect.	Low	3	3	Medium	* Succession plan; * Provide CPD opportunities annually, with additional emphasis on middle management development; * Review structure and support periodically; * staff satisfaction is monitored; * Pro-active use of occupational health service	1	3	Low			
5	<b>Breach of legislation &amp; associated regulations</b>											<b>Head of Human Resources</b>
Link to QIs: 6.3 / 7.2 / 9.3 Link to SP 3	* Legal action and associated costs; * Loss of staff morale; * Adverse publicity.	Low	1	4	Low	* Ensure regular employment law updates are reviewed by Human Resources Dept.; * Review of regular reports from HR.	1	4	Low			

# South Lanarkshire College – Risk Management Policy and Procedures

## South Lanarkshire College Risk Register

Date of review <b>02-Apr-15</b>
Next review due <b>21-May-15</b>

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			Likelihood	Impact	Risk Level		Likelihood	Impact	Risk Level			
<b>ESTATES</b>												
6	<b>Insufficient funds for capital project and maintenance requirements</b>											<b>Head of Facilities</b>
Link to QIs: 6.1/6.3.6.4 /7.4/9 Link to SP 3	* Reduction in student numbers due to poor facilities/environment; * Failure to attract new students; * Deterioration in infrastructure; * Potential health & safety risks	Low	4	2	Medium	* Continual review of estates; * Estates Strategy document; * Monitor risk assessments; * College arranges third party monitoring for all major projects budgets set for all major projects and for programme of planned preventive maintenance; * Forudes that all projects are "best value"	3	2	Medium	Investigating: * additional SFC funding; additional ERDF funding; * sponsorship opportunities		<b>May-15</b>
7	<b>Health &amp; Safety - Staff/ Students, Breach of laws &amp; regulations</b>											<b>Head of Facilities</b>
Link to QIs: 6.1/6.3.6.4 /7.1/7.2/7.4/8.1/9 Link to SP 1,2 and 3	* Death or serious injury to staff and/or students; * Legal action and associated costs; * Potential closure of all/part of College; * Costs of complying with legislation (e.g. PUWER).	Low	3	4	High	* Monitor periodic Health & Safety reports; * Ensure H & S Committee meets regularly; * Receive reports from Facilities Committee; * Facilities Manager is holder of NEBOSH & IOSH professional qualifications; Risk assessment training for all staff. Health & Safety a set agenda item for all College management & departmental / faculty meetings * Risk assessment, or a notice to say that an assessment is held centrally, displayed in all College rooms * Weekly Health & Safety Housekeeping inspections to identify issues which are reported upon and followed up formally	1	4	Low	* PUWER staff training sessions; .	Sep-15	
8	<b>Severe disruption due to major disaster, such as fire or flood</b>											<b>Head of Facilities</b>
Link to QIs: 6.1/6.3/6.4 /7.2/7.4/8.1/9 Link to SP 3	* Potential loss of life and/or complete destruction of College campus; * Cancellation of courses; * Staff redundancies; Loss of market position.	Low	3	4	High	* Disaster management procedures in place via Incident Management Plan; * Early warning systems (i.e. via alarms); * Adverse Weather Policy in place, incl. text triggers; * Insurance arrangements (business interruption); * Housekeeping review to ensure that no	1	4	Low			

# South Lanarkshire College – Risk Management Policy and Procedures

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RISK DEFINITION		RISK			RESIDUAL RISK			Actions Planned	Deadline	Responsibility for Risk / Responsibility for Actions Planned
Ref and link to Q, I.s and Strategic Plan (ref SP #)	Risk Description & Effect	Appetite for Risk	Likelihood	Impact	Risk Level	Controls, Risk Mitigation and Monitoring Arrangements in Place Currently	Likelihood			
<b>IT</b>										
9	<b>Theft of, or damage to, Management Information System</b>									<b>Head of Info Systems</b>
Link to QIs: 1.1, 1.2, 2.1, 2.2, 5.1, 6.1, 6.2, 6.3, 6.4 Link to SP 3	<ul style="list-style-type: none"> <li>* Loss of student and financial records;</li> <li>* Loss of income if unable to identify and recover debts;</li> <li>* Unable to produce evidence for grant claims;</li> <li>* Inability to process students results;</li> <li>* Unable to identify creditors due;</li> <li>* Air conditioning failure in Comms Room, particularly at a time when building is unoccupied;</li> <li>* disruption of courses</li> </ul>	<b>Low</b>	1	4	<b>Low</b>	<ul style="list-style-type: none"> <li>* Disaster recovery arrangements in place, as incorporated in Incident Management Plan (MIS systems - software &amp; hardware);</li> <li>* Established policy on use &amp; access;</li> <li>* Detailed server &amp; database backup procedures in place;</li> <li>* daily back ups kept off site;</li> <li>* business interruption insurance;</li> <li>* server rooms in different areas throughout the building;</li> <li>* controlled access procedures in place.</li> </ul>	1	2	<b>Low</b>	
<b>ACAD. QUALITY &amp; ACTIVITY</b>										
10	<b>Activity above or below target with a resulting financial impact / not managing part time staffing budget.</b>									<b>Associate Principals via AP in Construction (re Quality)</b>
Link to QIs: 1.3, 2.1, 2.3, 4.1, 4.2, 6.1, 6.2 Link to SP 3	<ul style="list-style-type: none"> <li>* Income targets fall short of expectations;</li> <li>* Overtrading produces costs which are not funded by associated income and puts additional pressure on student support funds;</li> <li>* failure to meet targets may affect following year's offer of funding;</li> <li>* difficult to replace major contracts.</li> </ul>	<b>Low</b>	3	2	<b>Medium</b>	<ul style="list-style-type: none"> <li>* Agree internal planning targets via formal Operational Planning process;</li> <li>* Robust student record and student attendance reporting systems;</li> <li>* Budgetary control to monitor enrolments for each course;</li> <li>* Course activity planned down to the level of individual students, allowing quick response to potential over or under delivery of targets;</li> <li>* Staffing costs monitored by SMT monthly.* Student uptake monitored weekly;</li> <li>* Income reviewed related to activity;</li> <li>* Demand at present outstrips supply;</li> <li>* In-year estimate of activity carried out;</li> <li>* focussed Quality Unit audit for SDS activity introduced;</li> <li>* Monitoring of training agency income &amp; achievement via "milestones" at Funding Strategy Group;</li> <li>* College has drawn up procedures and standard documentation for tendering, including follow up of unsuccessful bids.</li> </ul>	3	2	<b>Medium</b>	Part time staffing: * looking to increase activity levels and income streams without incurring add'l staffing costs; planning day to investigate rules for 2015/16

# South Lanarkshire College – Risk Management Policy and Procedures

South Lanarkshire College  
Risk Register

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RISK DEFINITION		Appetite for Risk	RISK			RESIDUAL RISK			Actions Planned	Deadline	Responsibility for Risk / Responsibility for Actions Planned	
Ref and link to Q, I.s and Strategic Plan (ref SP #)	Risk Description & Effect		Likelihood	Impact	Risk Level	Likelihood	Impact	Risk Level				
11	<b>Failure of College to evolve and develop new courses</b>										Associate Principals via AP in Construction (re Quality)	
Link to QIs: 4.1, 4.2, 6.1, 6.2, 6.3, 6.4, 7.1, 7.3, 7.4, 7.5, 8.2, 9.1 Link to SP 1 and 2	<ul style="list-style-type: none"> <li>* Student numbers decrease resulting in corresponding reduction in income;</li> <li>* Potential staff reduction as student numbers fall;</li> <li>* Weighted SUMs target not met;</li> <li>* Loss of confidence in the College;</li> <li>* Loss of income where College cannot respond promptly to requests for tender submissions which depend on an understanding of "real time" labour market.</li> </ul>	Low	1	2	Low	<ul style="list-style-type: none"> <li>* Monitor uptake and retention through Academic Board;</li> <li>* Improved market research input to curriculum planning;</li> <li>* Formal review of course provision via Operational Planning process.</li> <li>* Staff development opportunities throughout year to upskill staff;</li> <li>* Introductory teacher training delivered via in-house training sessions</li> <li>* Levering in funding to support new courses;</li> <li>* Upskilling &amp; diversification via CPD</li> </ul>	1	2	Low			
12	<b>Learning &amp; teaching quality not maintained / improved - poorly performing staff</b>										Associate Principals via AP in Construction (re Quality)	
Link to: 2.3, 3.1, 3.2, 5.1, 5.2, 5.3, 5.4, 5.5, 5.6, 7.1, 7.3, 7.5, 8.2, 9.2, 9.4 Link to SP 1, 2 and 3	<ul style="list-style-type: none"> <li>* Reduced student and staff numbers;</li> <li>* Less income, including the element of Grant in Aid for achievement;</li> <li>* Staff reduction leading to low morale;</li> <li>* Reputation of College damaged;</li> <li>* Partnerships at risk (potentially reduced core &amp; alternative income).</li> </ul>	Low	1	4	Low	<ul style="list-style-type: none"> <li>* Introduction of Learning Process Review (via PDLT &amp; JNC);</li> <li>* Monitor student satisfaction;</li> <li>* Monitor student achievement trends;</li> <li>* External audit (i.e. EV visits) ensure currency;</li> <li>* Capability procedure developed in conjunction with JNC;</li> <li>* Process of internal verification overseen by Quality Group;</li> <li>* Monitoring of student and staff satisfaction via course team reports.</li> <li>* PLSP for all Cat. 18 students;</li> <li>* Development and introduction of Student Charter;</li> <li>* Revamp of customer comments procedure;</li> <li>* Career review system in place, plus guidance review meeting with every student;</li> <li>* Staff dev opportunities ongoing throughout year to cover upskilling;</li> <li>* Staff involved in developing action points from annual self evaluation;</li> <li>* Professional Discussion of Learning &amp; Teaching;</li> <li>* Follow up from HMIe reviews;</li> </ul>	1	4	Low			

# South Lanarkshire College – Risk Management Policy and Procedures

## South Lanarkshire College Risk Register

### Key:

- Low** Risks which should be monitored by the Risk Management Group :
- Medium** Risks to be brought to the attention of SMT and the Board of Management:
- High** Risks to be reported to, and monitored by, Board of Management:

Date of review	02-Apr-15
Next review due	21-May-15

- Scores 1 - 4
- Scores 5 - 11
- Scores 12 - 16

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Willing to accept a residual risk score of 1-4	Low
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RISK DEFINITION		Appetite for Risk	RISK			RESIDUAL RISK			Actions Planned	Deadline	Responsibility for Risk / Responsibility for Actions Planned	
			Likelihood	Impact	Risk Level	Likelihood	Impact	Risk Level				
13	<b>Inadequate learning development services</b>										Associate Principal - Construction (re Quality)	
Link to QIs: 2.1, 2.2, 5.1, 5.5, 9.3 Link to SP 1, 2 and 3	* Student support needs not met; * Fall in student numbers; * Low student morale; * Adverse publicity	Low	1	3	Low	* Specific curricular area established (Student Learning Support); * Student services policies reviewed annually; * Annual Student Services operational plan; * Specific learning support team in place;  College has a bespoke system of pre-assessment of students: * PLSP for each Cat. 18 student and Learning; * Support Plan for all non-Cat. 18 students; * Structured programme of guidance and tutoring; * Appointment of several learning support staff within department of Student Learning Support.	1	3	Low	Requirement to investigate new funding guidelines for ELS	Jun-15	
<b>GOVERNANCE</b>												
14	<b>Severe adverse publicity</b>										Depute Principal (re Governance)	
Link to QI: 9 Link to SP 1, 2 and 3	* Reduction in student numbers; * Low staff morale; * Funding Council investigation.	Low	1	4	Low	* Public relations strategy involving local press has been developed via Marketing; * College is pro-active in its dealings with the media with all publicity managed in-house.	1	3	Low			
15	<b>Corporate Governance Issues - Board of Management</b>										Depute Principal (re Governance)	
Link to QI: 9 Link to SP 3	* Conflict of interest; * Openness and clarity of decision making questioned; * Incorrect skills mix; * Regionalisation may impact governance.  Regionalisation	Low	1	3	Low	* Declaration of Members' Interests at each Board meeting; * Minutes avail. in library and on College Intranet; * College has established Freedom of Information policy and set procedures and deadline dates for responses; * Board of Management CPD; * System introduced in 2011/12 of Board self-evaluation to be undertaken annually; * Corporate governance issue covered by internal and external auditors annually; * Board appointment procedure transparent	1	3	Low			

## South Lanarkshire College – Risk Management Policy and Procedures

### Appendix 2 – Risk Escalation Report

Department where risk identified	Description of perceived risk	Risk being investigated by	Date investigation complete	Date forwarded to RMG	Recommendation and outcomes



## **Risk Register as at 12<sup>th</sup> January 2017**

### **Commentary**

The Risk Management Group reviewed the College's Risk Register on 12<sup>th</sup> January 2017 as part of its ongoing programme.

The main discussion surrounded the question of financial sustainability. It was decided that, even as a temporary measure, the issue should be split into short-term and long-term risks. Following the decision to withdraw from the EU, it is unlikely that funds from that source, which currently support core grant-in-aid, will be available beyond 2017/18. This gives many colleges in the FE sector a serious difficulty, should they not be compensated by some other method of funding. To this end, the Group felt it necessary to split this risk. The Lanarkshire Region and South Lanarkshire College have made joint and separate representations to the Scottish Funding Council, highlighting this issue.

With regard to the more immediate cashflow concerns, the Group noted that the move to Government banking will take away the College's ability to access an overdraft. The College, like many in the sector, has a potential problem at 31<sup>st</sup> March each year (two thirds of the way through their funding year) as the Funding Council will only allow colleges to draw down a maximum of 62% of their grant-in-aid for the year. Again, representations have been made to the Funding Council looking for them to provide a solution. Should one not be forthcoming, the College will look to other quarters for short-term funding and at delaying payments to suppliers. It is hoped, however, that the Funding Council will produce a solution for the sector.

The allocation of additional in-year capital funds allowed the ranking of risk 7 to fall.

Overall, there was a welcomed decrease in risk ranking, in that the scores of 5 risks reduced, whilst the scores of 2 increased.

South Lanarkshire College  
Risk Register

Date of review	12-Jan-17
Next review due	23-Feb-17

RISK DEFINITION	ORIGINAL RISK				RESIDUAL RISK				Risk Appetite	Trend
	Likelihood	Impact	Total	Risk Level	Likelihood	Impact	Total	Risk Level		
<b>FINANCE</b>										
1	College cannot maintain financial stability - Long Term									
	4	4	16	High	3	4	12	High	Low	▼
2	College cannot maintain financial stability - Short Term									
	4	3	12	High	3	3	9	Medium	Low	New
3	Failure of financial controls									
	2	3	6	Medium	1	3	3	Low	Low	=
4	Failure to maximise allocated activity re Government training programmes / EU-funded courses									
	3	3	9	Medium	3	3	9	Medium	Low	▲
<b>HUMAN RESOURCES</b>										
5	Loss of key staff; failure to recruit suitably qualified staff									
	3	3	9	Medium	1	3	3	Low	Low	=
6	Breach of legislation & associated regulations									
	2	4	8	Medium	1	4	4	Low	Low	=
<b>ESTATES</b>										
7	Insufficient funds for capital project and maintenance requirements									
	4	3	12	High	3	3	9	Medium	Low	▼
8	Health & Safety - Staff / Students, Breach of laws & regulations									
	3	4	12	High	1	4	4	Low	Low	=
9	Severe disruption due to major disaster, such as fire or flood									
	3	4	12	High	1	4	4	Low	Low	=
<b>IT</b>										
10	Theft of, or damage to, Management Information System									
	1	4	4	Low	1	2	2	Low	Low	=
11	Cyber Crime									
	2	4	8	Medium	1	4	4	Low	Low	▼
<b>ACAD. QUALITY &amp; ACTIVITY</b>										
12	Failure to meet Credit target / danger of overtrading (i.e. above or below SFC-established tolerance levels); failure to retain major public and private contracts.									
	3	2	6	Medium	2	2	4	Low	Low	▼
13	Failure of College to evolve and develop new courses									
	1	2	2	Low	1	2	2	Low	Low	=
14	Learning & teaching quality not maintained / improved - poorly performing staff									
	1	4	4	Low	1	4	4	Low	Low	▲
15	Inadequate learning support services									
	1	3	3	Low	1	3	3	Low	Low	=
<b>GOVERNANCE</b>										
16	Severe adverse publicity									
	2	4	8	Medium	2	3	6	Medium	Low	▼
17	Corporate Governance Issues - Board of Management									
	1	3	3	Low	1	3	3	Low	Low	=

Key: Assessment of Risks

Risks which should be monitored by the Risk Management Group: Scores 1 - 4  
 Risks to be brought to the attention of SMT and the Board of Management: Scores 5 - 11  
 Risks to be reported to, and monitored by, Board of Management: Scores 12 - 16

Low
Medium
High

Risk Scoring Matrix

Very High	4	8	12	16	
High	3	6	9	12	
Medium	2	4	6	8	
Low	1	2	3	4	
Impact	Probability	Unlikely	Possible	Likely	Very Likely

Risk Appetite:

Risk appetite definition:

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			Likelihood	Impact			Likelihood	Impact	Risk Level			
<b>FINANCE</b>												
1	<b>College cannot maintain financial stability - Long Term</b>											<b>Head of Finance</b>
Link to QIs - 6.4 / 8.2. Link to SP 3	<ul style="list-style-type: none"> <li>* If cashflow is compromised, College could close;</li> <li>* Staff, students and other stakeholders lose confidence;</li> <li>* College experiences student retention problems;</li> <li>* Staff, students and other stakeholders lose confidence;</li> <li>* College experiences student retention problems;</li> <li>* Withdrawal from EU puts ESF / SFC funding at risk. * College not funded directly by SFC.</li> <li>* Uncertainty over central funding makes long-term financial planning problematic.</li> </ul>	Low	4	4	High	<ul style="list-style-type: none"> <li>* Rigorous budget setting procedures;</li> <li>* Budget monitoring by senior management and Board of Management with corrective action taken where necessary;</li> <li>* Financial Regulations and associated internal controls;</li> <li>* Effective internal and external audit;</li> <li>* Arms-length trust set up.</li> </ul>	3	4	High	<ul style="list-style-type: none"> <li>* College to lobby for additional SFC / ESF activity to be incorporated into core grant-in-aid allocation, and for value of both core and ESF credits to be increased.</li> <li>* Financial strategic plan to be drawn up to cover 5 year period, plus system of regular review.</li> </ul>	Jan 2017  Feb 2017	Principal / Depute Principal  Head of Finance
2	<b>College cannot maintain financial stability - Short Term</b>											<b>Head of Finance</b>
Link to QIs - 6.4 / 8.2. Link to SP 3	<ul style="list-style-type: none"> <li>* SFC financial year does not coincide with College financial year; pressure points at March and July; with no opportunity to borrow.</li> <li>* College has insufficient funds for recurring expense and equipment replacement;</li> <li>* Overspend of ring-fenced student support funds.</li> </ul>	Low	4	3	High	<ul style="list-style-type: none"> <li>* Monthly monitoring of student support funds spend; allocation for 2016/17 is adequate</li> <li>* Regional Outcome Agreement in place so that funding is known.</li> <li>* Cashflow is monitored on a daily basis to ensure that payments are not made at a time when the College's bank balance would be put into debit.</li> <li>* Budget planning takes account of cashflow re significant capital spends</li> </ul>	3	3	Medium	<ul style="list-style-type: none"> <li>* Region has been successful in winning additional grant to cover shortfall in unit rate funding for ESF / SFC funding. This covers 2016/17 and 2017/18.</li> </ul>		

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		Likelihood	Impact	Risk Level		Likelihood	Impact	Risk Level			
3											Head of Finance
<p><b>Failure of financial processes and controls.</b></p> <p>Link to QIs - 6.1 / 6.2 / 8.2 Link to SP3</p> <p>* Procedures and processes are not robust and / or staff do not follow procedures. * Student support funds not monitored adequately, resulting in these being overextended. <b>Effect:</b> * Staff and management do not make the correct decisions/ mismanagement occurs; * Failure to detect fraud; * College incurs liability through staff falling foul of Bribery Act; * College fails to adhere to ONS reclassification requirements. * Shortfall in student support funding - College has to utilise its own funds and / or some students disadvantaged as a result of inefficient distribution.</p>	Low	2	3	Medium	<p>* Evaluate effectiveness of controls through variance reporting; * Annual programme of internal and external audit, as determined by Board of Management and external bodies, with these being monitored by the Audit Committee; * System in place to analyse performance via Funding Strategy Group; * Constant review of student funding arrangements; * Student funds audited by internal &amp; external auditors; * Annual guidance given by SAAS and Scottish Funding Council; * Anti-Bribery and Whistleblowing Policies in place; * Audit Committee membership comprised of non-College staff; * Low number of recommendations in internal audit reports; * Finance calendar incl. schedule of management meetings now drawn up; responsibilities now clarified. * Whistle-Blowing and Anti-Bribery Policies updated at Nov 2015 and approved by Board.</p>	1	3	Low	<p>• Review of Financial Regulations to be undertaken (note: work being undertaken by SFC on this); • Review of management reporting system to be undertaken. • Development of Regional accounts &amp; financial reports; utilisation of Financial Accountant.</p>	<p>* Feb 2017 * Feb 2017 * Feb 2017</p>	Head of Finance
4											Depute Principal / Head of Finance

Date of review 12-Jan-17
Next review due 23-Feb-17

<b>Appetite for Risk:</b>	
Risk appetite definition: The level of risk that an organisation is prepared to accept, before action is deemed necessary to reduce it.	
Willing to accept a residual risk score of 1 - 4	Low
Willing to accept a residual risk score of 5-11	Medium
Willing to accept a residual risk score of 12-16	High

**Key:**

Low	Risks which should be monitored by the Risk Management Group :	Scores 1 - 4
Medium	Risks to be brought to the attention of SMT and the Board of Management:	Scores 5 - 11
High	Risks to be reported to, and monitored by, Board of Management:	Scores 12 - 16

RISK DEFINITION		Appetite for Risk	RISK			Controls, Risk Mitigation and Monitoring Arrangements in Place Currently	RESIDUAL RISK			Actions Planned / Movement in factors influencing scoring since previous review.	Deadline	Responsibility for Risk / Responsibility for Actions Planned
Ref and link to Q. I.s and Strategic Plan (ref SP #)	Risk Description & Effect		Likelihood	Impact	Risk Level		Likelihood	Impact	Risk Level			
Link to QIs - 2.1 / 2.2 / 5.3 / 8.1 / 8.2 / 9.3 Link to SP 2 and 3	<ul style="list-style-type: none"> <li>* Loss of income where targets on start numbers, attendance, achievement and progression are not met;</li> <li>* Financial viability of the College threatened;</li> <li>* Potential loss of future activity awards where achievement / performance is below target, leading to lesser chance of winning future bids;</li> <li>* Drop in SDS-funded projects (e.g. Foundation App's);</li> <li>* Emp Fund activity no longer ring-fenced for colleges</li> </ul>	Low	3	3	Medium	<ul style="list-style-type: none"> <li>* Funding Strategy Group monitors income and delivery on a monthly basis;</li> <li>* SDS Working Group set up;</li> <li>* Programmes to be reported on as "separate line" in Management Accounts.</li> <li>* Monitoring of training agency income &amp; achievement via "milestones" at Funding Strategy Group, SMT and CMT.</li> <li>* Remit and structure of Funding Strategy Group reviewed in 2015/16 with a view to improving focus and strategic drive.</li> <li>* Setting of income targets</li> </ul>	3	3	Medium	<ul style="list-style-type: none"> <li>* Continuing programme of staff development with academic CM's on sourcing new areas of income and on preparation of tenders to win new business ;</li> <li>* College is participating in bid to Community Benefit Fund</li> </ul>	* February 2017	Head of Alternative Funding / Head of Finance

Date of review  
12-Jan-17

Next review due  
23-Feb-17

**Appetite for Risk:**

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Willing to accept a residual risk score of 5-11 **Medium**

Willing to accept a residual risk score of 12-16 **High**

**Key:**

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<b>HUMAN RESOURCES</b>												
5	<b>Loss of key staff; failure to recruit suitably qualified staff</b>											<b>Head of Human Resources</b>
Link to QIs: 3.3 / 7.3 / 7.4 / 7.5 Link to SP 2 and 3	<ul style="list-style-type: none"> <li>* Undirected decision making;</li> <li>* Possible loss of staff confidence;</li> <li>* Resources (particularly management) not utilised in most effective way;</li> <li>* Low number of senior management positions means absences or departures may have proportionately greater effect.</li> </ul>	Low	3	3	Medium	<ul style="list-style-type: none"> <li>* Succession planning built into CPD process;</li> <li>* Provide CPD opportunities annually, with additional emphasis on middle management development;</li> <li>* Review structure and support periodically;</li> <li>* Staff satisfaction is monitored;</li> <li>* Pro-active use of occupational health service</li> </ul>	1	3	Low	<ul style="list-style-type: none"> <li>* Develop programme of key skills for middle management ;</li> <li>* 5-year workforce planning model being developed via Board of Management</li> </ul>	Summer 2017 staff development days.	
6	<b>Breach of legislation &amp; associated regulations</b>											<b>Head of Human Resources</b>
Link to QIs: 6.3 / 7.2 / 9.3 Link to SP 3	<ul style="list-style-type: none"> <li>* Legal action and associated costs;</li> <li>* Loss of staff morale;</li> <li>* Adverse publicity.</li> <li>* New legislation on Corporate Parenting &amp; "Prevent" duty</li> <li>* Gender Action Plan being introduced</li> </ul>	Low	2	4	Medium	<ul style="list-style-type: none"> <li>* Ensure regular employment law updates are reviewed by Human Resources Dept.;</li> <li>* Review of regular reports from HR.</li> <li>* Distribution of updates to appropriate staff</li> <li>* Mandatory staff development sessions for all staff on PREVENT (ASIST) and equalities completed in Jan 2016.</li> <li>* Safeguarding Group now set up covering Corporate Parenting, PVG etc. Student Association represented on the Group.</li> <li>* College Inclusiveness Group and Gender Action</li> </ul>	1	4	Low	<ul style="list-style-type: none"> <li>* review of equalities outcomes;</li> <li>* Developing the Equality Mainstream Report for both the College and the Region; this report is made public.</li> </ul>	Apr-17	Head of HR

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Willing to accept a residual risk score of 12-16	High

**Key:**

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		Likelihood	Impact		Likelihood	Impact	Risk Level			

**ESTATES**

7	<b>Insufficient funds for capital project and maintenance requirements</b>											
Link to QIs: 6.1/6.3.6.4 /7.4/9 Link to SP 3	* Reduction in student numbers due to poor facilities/environment; * Failure to attract new students; * Deterioration in infrastructure; * Potential health & safety risks * Decrease in SFC Capital Maintenance funding in 2016/17, although this was reversed by SFC albeit with restrictions.	Low	4	3	High	* Continual review of estates; * Estates Strategy document; * Monitor risk assessments; * College arranges third party monitoring for all major projects budgets set for all major projects and for programme of planned preventive maintenance; * Ensuring that all projects are "best value". * Emphasis now on use of internal resources for maintenance and minor repairs. I * Brief of Funding Strategy Group incorporates sponsorship opportunities (e.g. Community Benefit Fund).	3	3	Medium	* Development of budgeting process to ensure that projects are targeted and ranked to make best use of funding. * Strategy for developing external fundraising; * List of asset replacement to be drawn up and incorporated into updated Estates Strategy Plan; * Member of staff with specific responsibility for procurement leading on Best Value tendering & general improvement in purchasing	Feb 2017  Jan 2017  Feb 2017	Head of Finance  Heads of Finance & Alt Funding  Head of Facilities
8	<b>Health &amp; Safety - Staff/ Students, Breach of laws &amp; regulations</b>											
Link to QIs: 6.1/6.3.6.4 /7.1/7.2/7.4/8.1/9 Link to SP 1,2 and 3	* Death or serious injury to staff and/or students; * Legal action and associated costs; * Potential closure of all/part of College; * Costs of complying with legislation (e.g. PUWER). * Procedures re bomb threats.	Low	3	4	High	* Monitor periodic Health & Safety reports; * Ensure H & S Committee meets regularly; * Receive reports from Facilities Committee; * Facilities Manager is holder of NEBOSH & IOSH professional qualifications; * Risk assessment training for all staff. Health & Safety a set agenda item for all College management & departmental / faculty meetings * Risk assessment, or a notice to say that an assessment is held centrally, displayed in all College rooms * Weekly Health & Safety Housekeeping inspections to identify issues which are reported upon and followed up formally • Reporting systems in place for H&S Issues • PUWER staff training sessions now delivered to all appropriate staff to ensure completeness and standardisation; • Formal training sessions now added to all Staff Development days	1	4	Low			Head of Facilities

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Ref and link to Q.I.s and Strategic Plan (ref SP #)	Risk Description & Effect	Appetite for Risk	Likelihood	Impact	Risk Level	Controls, Risk Mitigation and Monitoring Arrangements in Place Currently	Likelihood				Impact	Risk Level
9	<b>Severe disruption due to major disaster, such as fire or flood</b>									<b>Head of Facilities</b>		
Link to QIs: 6.1/6.3/6.4 /7.2/7.4/8.1/9 Link to SP 3	<ul style="list-style-type: none"> <li>* Potential loss of life and/or complete destruction of College campus;</li> <li>* Cancellation of courses;</li> <li>* Staff redundancies;</li> <li>* Loss of market position.</li> <li>* Policy &amp; procedures re bomb threats</li> </ul>	Low	3	4	High	<ul style="list-style-type: none"> <li>* Disaster management procedures in place via Business Continuity Plan;</li> <li>* Early warning systems (i.e. via alarms);</li> <li>* Adverse Weather Policy in place, incl. text triggers;</li> <li>* insurance arrangements (business interruption);</li> <li>* Housekeeping review to ensure that no foreseeable problems arise.</li> <li>* Updated Business Continuity Plan in place; tested live twice in 2015 via incidents taking place .</li> <li>* Testing of IT - related issues has already been incorporated into Staff development days - this will be documented.</li> </ul>	1	4	Low	<ul style="list-style-type: none"> <li>* Consult another college re potential to share core IT services in the event of the breakdown in service</li> <li>* Programme to test Business Continuity Plan;</li> <li>* Development of Security Policy re (e.g.) bomb threats</li> </ul>	Feb 2017  Feb 2017  Feb 2017	Head of Facilities / Head of IT
<b>IT</b>												
10	<b>Theft or failure of, or damage to, Management Information System</b>									<b>Head of Info Systems</b>		
Link to QIs: 1.1,1.2,2.1,2.2,5,1,6,1,6,2,6,3,6,4 Link to SP 3	<ul style="list-style-type: none"> <li>* Loss of student and financial records;</li> <li>* Loss of income if unable to identify and recover debts;</li> <li>* Unable to produce evidence for grant claims;</li> <li>* Inability to process students results;</li> <li>* Unable to identify creditors due;</li> <li>* Air conditioning failure in Comms Room, particularly at a time when building is unoccupied;</li> <li>* Disruption of courses</li> </ul>	Low	1	4	Low	<ul style="list-style-type: none"> <li>* Disaster recovery arrangements in place, as incorporated in Incident Management Plan (MIS systems - software &amp; hardware);</li> <li>* Established policy on use &amp; access;</li> <li>* Detailed server &amp; database backup procedures in place;</li> <li>* Daily back ups kept off site;</li> <li>* Business interruption insurance;</li> <li>* Server rooms in different areas throughout the building;</li> <li>* Controlled access procedures in place.</li> <li>* Arrangements now in place for making payments to staff, students &amp; suppliers in case of loss of IT;</li> <li>* College has external lines from two separate suppliers, mitigating risk of all external lines being out of commission.</li> </ul>	1	2	Low			



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11 <b>Threat to IT via Cyber Crime</b>											
Link to QIs: 1.1,1.2,2.1,2.2,5.1,6.1,6.2,6.3,6.4 Link to SP 3	* Loss of student and financial records; * Loss of income if unable to identify and recover debts; * Unable to produce evidence for grant claims; * Inability to process students results; * Unable to identify creditors due; * Disruption of courses	Low	2	4	Medium	* Controls as per Risk No. 9. * College has separate cyber crime risk insurance; cyber crime now incorporated into Business Continuity Plan.	1	4	Low		
<b>ACAD. QUALITY &amp; ACTIVITY</b>											
12	Activity above or below target with a resulting financial impact / not managing part time staffing budget.										AP for Construction (re Quality)
Link to QIs: 1.3, 2.1, 2.3, 4.1, 4.2, 6.1, 6.2 Link to SP 3	* Income targets fall short of expectations; * Overtrading produces costs which are not funded by associated income and puts additional pressure on student support funds; * failure to meet targets may affect following year's offer of funding; * difficult to replace major contracts.	Low	3	2	Medium	* Agree internal planning targets via formal Operational Planning process; * Monthly review of activity at Senior Management team meeting * Robust student record and student attendance reporting systems; * Budgetary control to monitor enrolments for each course; * Course activity planned down to the level of individual students, allowing quick response to potential over or under delivery of targets; * Staffing costs monitored by SMT monthly. * Student uptake monitored weekly; * Income reviewed related to activity; * Demand at present outstrips supply; * In-year estimate of activity carried out; * Focussed Quality Unit audit for SDS activity introduced; * Monitoring of training agency income & achievement via "milestones" at Funding Strategy Group; * College has drawn up procedures and standard documentation for tendering, including follow up of unsuccessful bids. • College has addressed gaps in permanent staffing complement via making temporary posts permanent and this policy will continue.	2	2	Low	Development of Access and Inclusion Policy to be introduced in session 2017/18	Principal / Depute Principal / Board

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Ref and link to Q.I.s and Strategic Plan (ref SP #)	Risk Description & Effect	Appetite for Risk	Likelihood	Impact	Risk Level	Likelihood	Impact				Risk Level
13	Failure of College to evolve and develop new courses									Associate Principals via AP in Construction (re Quality)	
Link to QIs: 4.1, 4.2, 6.1, 6.2, 6.3, 6.4, 7.1, 7.3, 7.4, 7.5, 8.2, 9.1 <b>Link to SP 1 and 2</b>	* Student activity level decreases, resulting in corresponding reduction in income; * Potential staff reduction as student numbers fall; *Credit target not met; * Loss of confidence in the College; * Loss of income where College cannot respond promptly to requests for tender submissions which depend on an understanding of "real time" labour market.	Low	1	2	Low	* Monitor uptake and retention through Academic Board; * Improved market research input to curriculum planning; * Formal review of course provision via Operational Planning process. • Staff development opportunities throughout year to upskill staff; • Introductory teacher training delivered via in-house training sessions •Levering in funding to support new courses; •Upskilling & diversification via CPD *College has reviewed Wood Commission Report to be ready for developments in the sector (foundation apprenticeships, DYW etc.) * Following review, College has developed courses using new awarding bodies.	1	2	Low		

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Ref and link to Q. I.s and Strategic Plan (ref SP #)	Risk Description & Effect		Likelihood	Impact	Risk Level		Likelihood	Impact	Risk Level			
14	Learning & teaching quality not maintained											AP for Construction (re Quality)
Link to: 2.3, 3.1, 3.2, 5.1, 5.2, 5.3, 5.4, 5.5, 5.6, 7.1, 7.3, 7.5, 8.2, 9.2, 9.4 Link to SP 1, 2 and 3	<ul style="list-style-type: none"> <li>* Reduced student and staff numbers;</li> <li>* Less income, including the element of Grant in Aid for achievement;</li> <li>* Staff reduction leading to low morale;</li> <li>* Reputation of College damaged;</li> <li>* Partnerships at risk (potentially reduced core &amp; alternative income);</li> <li>* Industrial action affecting delivery and outcomes</li> </ul>	Low	1	4	Low	<ul style="list-style-type: none"> <li>* Well-embedded PDLT review &amp; implementation system.</li> <li>* Monitoring of student satisfaction;</li> <li>* Monitoring of student achievement trends;</li> <li>* External audit (i.e. EV visits) ensure currency;</li> <li>* Capability procedure developed in conjunction with JNC;</li> <li>* Process of internal verification overseen by Quality Group;</li> <li>* Monitoring of student and staff satisfaction via course team reports.</li> <li>• PLSP for all Price Group 5 (Add'l support needs) students;</li> <li>• Development and introduction of Student Charter;</li> <li>• Revamp of customer comments procedure;</li> <li>• Career review system in place, plus guidance review meeting with every student;</li> <li>• Staff devt opportunities ongoing throughout year to cover upskilling;</li> <li>• Staff involved in developing action points from annual self evaluation;</li> <li>• Formal follow up of Education Scotland reviews;</li> <li>• Internal audit and online surveys;</li> <li>• Use of technical innovations (e.g. tablets and pads)</li> </ul>	1	4	Low	<ul style="list-style-type: none"> <li>* Plans developed during recently to ensure College is kept open as far as possible during times of disruption including provision of first aid &amp; fire warden arrangements.</li> </ul>		

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15	Inadequate learning development services											AP for Construction (re Quality)
Link to QIs: 2.1, 2.2, 5.1, 5.5, 9.3 Link to SP 1, 2 and 3	* Student support needs not met; * Fall in student numbers; * Low student morale; * Adverse publicity	Low	1	3	Low	* Specific curricular area established (Learning Development Unit); * Student services policies reviewed annually; * Annual Student Services operational plan; * Specific learning support team in place; * College has a bespoke system of pre-assessment of students: * PLSP for each Price Group 5 student; * Support Plan for all Price Group 5 students; * Structured programme of guidance and tutoring; * Appointment of several learning support staff within department of Student Learning Support; * Services for students introduced at lunchtime and for "twilight" students * Lunchtime student support sessions now established and extending areas of coverage.	1	3	Low			
<b>GOVERNANCE</b>												
16	Severe adverse publicity											Depute Principal (re Governance)
Link to QI: 9 Link to SP 1, 2 and 3	* Reduction in student numbers; * Low staff morale; * Funding Council investigation * Effects of centralised pay bargaining and potential strike action	Low	2	4	Medium	* Public relations strategy involving local press has been developed via Marketing; * College is pro-active in its dealings with the media with all publicity managed in-house; * College has retainer service with its legal advisors and refers potentially problematic situation to them for comment as a matter of course. * Staff cultural surveys (linked to IIP, IID etc) and annual student surveys flag up potential problems; * Sabbatical student positions assist in identifying and addressing student-related issues.	2	3	Medium			

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17	<b>Corporate Governance Issues - Board of Management</b>									<b>Depute Principal / Clerk to the Board</b>	
Link to QI: 9 Link to SP 3	<ul style="list-style-type: none"> <li>* Conflict of interest;</li> <li>* Openness and clarity of decision making questioned;</li> <li>* Incorrect skills mix;</li> <li>* All the benefits of Regionalisation have not yet fully crystallised.</li> </ul>	Low	1	3	Low	<ul style="list-style-type: none"> <li>* Reiteration by SFC that SLC is responsible for its own governance;</li> <li>* College Board of Management refreshed over the summer of 2016.</li> <li>* Declaration of Members' Interests at each Board meeting;</li> <li>* Minutes and supporting papers avail. in library and on College intranet; with a link from Regional website to College website;</li> <li>* College has established Freedom of Information policy and set procedures and deadline dates for responses;</li> <li>* Board of Management CPD;</li> <li>* Board self-evaluation is undertaken annually;</li> <li>* Corporate governance issue covered by internal and external auditors annually;</li> <li>* Board appointment procedure transparent and appointments matched with defined skill set.</li> <li>* Revamped College website now has Governance section for general public use with separate Governance area for Board of Management.</li> <li>* Specific item on sector governance now on Board of Management training day agenda</li> <li>* All BoM members undergo PVG check.</li> <li>* Internal audits on Regional aspect of good practice etc now being covered by internal auditors</li> </ul>	1	3	Low		

# A PROFESSIONAL JUDGEMENT FRAMEWORK - USER GUIDE

## INTRODUCTION

ICAS originally published *A professional judgement framework for financial reporting in 2012*. It was primarily targeted at accountants (both preparers and auditors) determining the appropriate accounting treatment for particular transactions. This new edition has been broadened to make it more universally applicable to decision makers involved in financial reporting, whether accountants or non-accountants, in the private or not-for-profit sectors. It also includes a new section on audit committees and further context on ethical decision making.

## PURPOSE OF A PROFESSIONAL JUDGEMENT FRAMEWORK

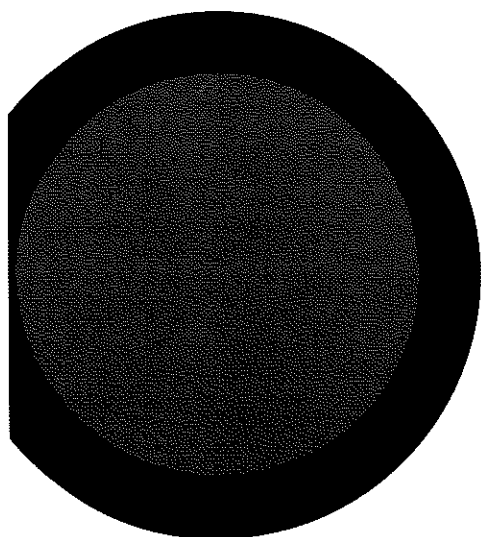
Professional judgement is a key skill for preparers<sup>1</sup>, auditors, audit committee members and regulators of financial statements, especially under a principles-based accounting regime. However, making a judgement can be difficult and there is not necessarily one correct answer.

This professional judgement framework identifies core principles and provides a structured process to guide decision makers through how to make, assess and document significant judgements.<sup>2</sup> It targets significant judgements across narrative and financial reporting including accounting treatment, materiality, estimates and disclosures. It is designed to fit within the context provided by applicable accounting standards. This includes both judgements in the process of applying accounting policies (as per IAS 1 para 122) as well as assumptions and other major sources of estimation uncertainty (IAS 1 para 125). However, these principles can be easily adapted for other judgements where there is a degree of uncertainty and subjectivity involved.

### A principles-based approach

The professional judgement framework uses a principles-based approach. ICAS believes that a principles-based approach better serves the needs of users of narrative reports, financial statements and the public interest.<sup>3</sup>

Principles-based standards provide a framework within which the regulatory intention can be met, and the economic substance of transactions faithfully represented, without the need for detailed rules. This approach provides scope for professional opinion. It relies on the application of sound judgement by preparers, auditors, audit committees and regulators. A clearly articulated principle is a more powerful driver of consistency, simplicity and quality than a series of rules which can create unnecessary complexity and stimulate



avoidance. This is particularly important in a complex and changing environment.

The role of standard setters is crucial to the process. As argued in earlier ICAS publications<sup>4</sup>, standard setters should create standards which allow judgement within a principles-based framework. Recommendations to standard setters in maintaining and producing principles-based standards are set out at the end of this document.

### **WHO A PROFESSIONAL JUDGEMENT FRAMEWORK CAN ASSIST**

This professional judgement framework applies internationally to different sizes and types of organisations, whether listed or unlisted, across the private and not-for-profit sectors.

It identifies principles for:

- Preparers - Making and documenting the judgement.
- Auditors - Assessing and challenging the judgement.
- Audit committees - Considering, reviewing and concluding on the judgement.
- Regulators - Assessing the judgement.

The framework is designed to help preparers, auditors and audit committee members (or boards where no audit committee exists) to form an opinion on significant financial reporting matters. It aims to support those assessing the judgement to understand why key judgements have been made and the appropriateness of judgements based on the facts determinable at the time. The framework is also intended to assist regulators' judgement process by ensuring that there is appropriate documentation by preparers, audit committee members and auditors to justify key judgements.

By aiding judgement in financial reporting, the framework supports informed decision making and improved accountability to stakeholders including users and the wider public interest.

It is assumed that judgements are made by those with an appropriate level of knowledge, experience and objectivity. Whilst to some the process of making a judgement may be intuitive, to others it may be new. This framework can assist the training process for those who are new to making professional judgements and enable individuals to recognise situations where they need to seek assistance from others.

### **THE CONTEXT WITHIN WHICH PROFESSIONAL JUDGEMENTS ARE MADE**

#### **Ultimate responsibility**

Ultimately the board, or equivalent, is responsible for the annual report and financial statements as well as setting the 'tone at the top' for a sound ethical culture and cascading the company values across all levels of the organisation. There should be a clear escalation and approval procedure so that decisions are made and endorsed at the appropriate level.

#### **Ethical decision making**

Good ethics across an organisation lie at the heart of sound decision making. The importance of the 'tone at the top' of an organisation, its integrity, and a sound ethical culture cannot be underestimated in the effective operation of principles-based standards and the quality and integrity of judgements made. Decision makers should not be swayed by any undue pressures or conflicts of interest when making a judgement. Such ethical considerations should be considered when making key

judgements and are therefore incorporated into this framework.

Where specific ethical dilemmas arise ICAS has produced an *Ethical decision making framework*.<sup>5</sup> This ethical framework follows the approach outlined in this professional judgement framework. Where ethical dilemmas arise it is advisable to seek a second opinion from your network, colleagues or where appropriate your professional body. You should also consult your professional body's Code of Ethics – see *ICAS Code of Ethics* – and/or the International Ethics Standards Board for Accountants (*IESBA code*). Ethical case studies can also provide a useful resource.<sup>6</sup>

#### **Judgements on accounting treatment**

Judgements should be made within the context provided by existing applicable accounting standards, regulations and law. Principles-based standards inherently require significant judgement in their application to a particular set of circumstances.

This framework has been prepared to assist in determining the appropriate accounting treatment for a particular transaction or group of transactions or an event, where:

- there is no specific standard covering the transaction; or
- there is a standard but no detailed provision of how to deal with its implementation in practice; or
- there are accounting principles in a standard but no detailed provision of how to deal with a specific principle in practice; or
- the standard provides sufficient detail and implementation guidance but still requires

significant judgement in its application to the particular circumstances as the appropriate conclusion is highly context-specific; or

- there is more than one set of accounting principles that may apply to the transaction.

IAS 8 (paragraphs 10-12) covers the situation where there is an absence of an IFRS that specifically deals with a transaction. The standard states that when making a judgement the aim should be that the resulting information is relevant and reliable. IAS 8 outlines the other sources which should be referred to in such an instance. IAS 1 (paragraph 122) requires that any judgements made which have a significant effect on the financial statements should be disclosed. The ICAS professional judgement framework incorporates these requirements but takes them forward by including them in a set of principles to be followed by preparers and auditors.

The framework has been prepared on the assumption that IFRSs are being followed, however, this could easily be adapted to other principles-based national generally accepted accounting practices (GAAPs).<sup>1</sup>



## HOW TO USE THE FRAMEWORK

When using this framework, the following should be borne in mind:

- The framework does not substitute for specialist advice.
- It is assumed that the decision maker is at an appropriate level and suitably experienced to make the judgement.
- The framework has been prepared for guidance and is not intended to be used as a pure 'box ticking' exercise; judgement should be used to ensure that the procedures followed are appropriate to the individual circumstances.
- It is recommended that this framework is used for significant judgements or those which would have a material effect on the financial statements, it is not designed for every judgement made.
- Judgements made may fall within a range of possible outcomes. Due to the subjectivity involved in making a judgement, the framework cannot be relied upon to prevent judgements falling outside the range of acceptable outcomes or otherwise being perceived as 'incorrect'.
- It is assumed that the transactions entered into are genuine and substantive transactions permitted by law; if this appears not to be the case expert advice should be sought.
- The illustrative actions (outlined in the detailed guidance) which you might undertake to apply the principles, is not intended to be prescriptive or exhaustive. Some of the actions may be undertaken concurrently, or will not be relevant, depending on the specific situation.

## HOW TO NAVIGATE

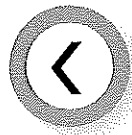
Each group has a summary of the key principles and detailed guidance. You can go directly to the section you need using the following links:

- Preparers – [summary of principles & detailed guidance](#).
- Auditors – [summary of principles & detailed guidance](#).
- Audit committees – [summary of principles & detailed guidance](#).
- Regulators – [summary of principles & detailed guidance](#).

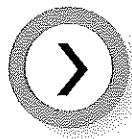
This guide also has quick links to move between the user guide, summary of key principles and detailed guidance as shown below.



[GO TO USER GUIDE](#)



[GO TO SUMMARY OF PRINCIPLES](#)

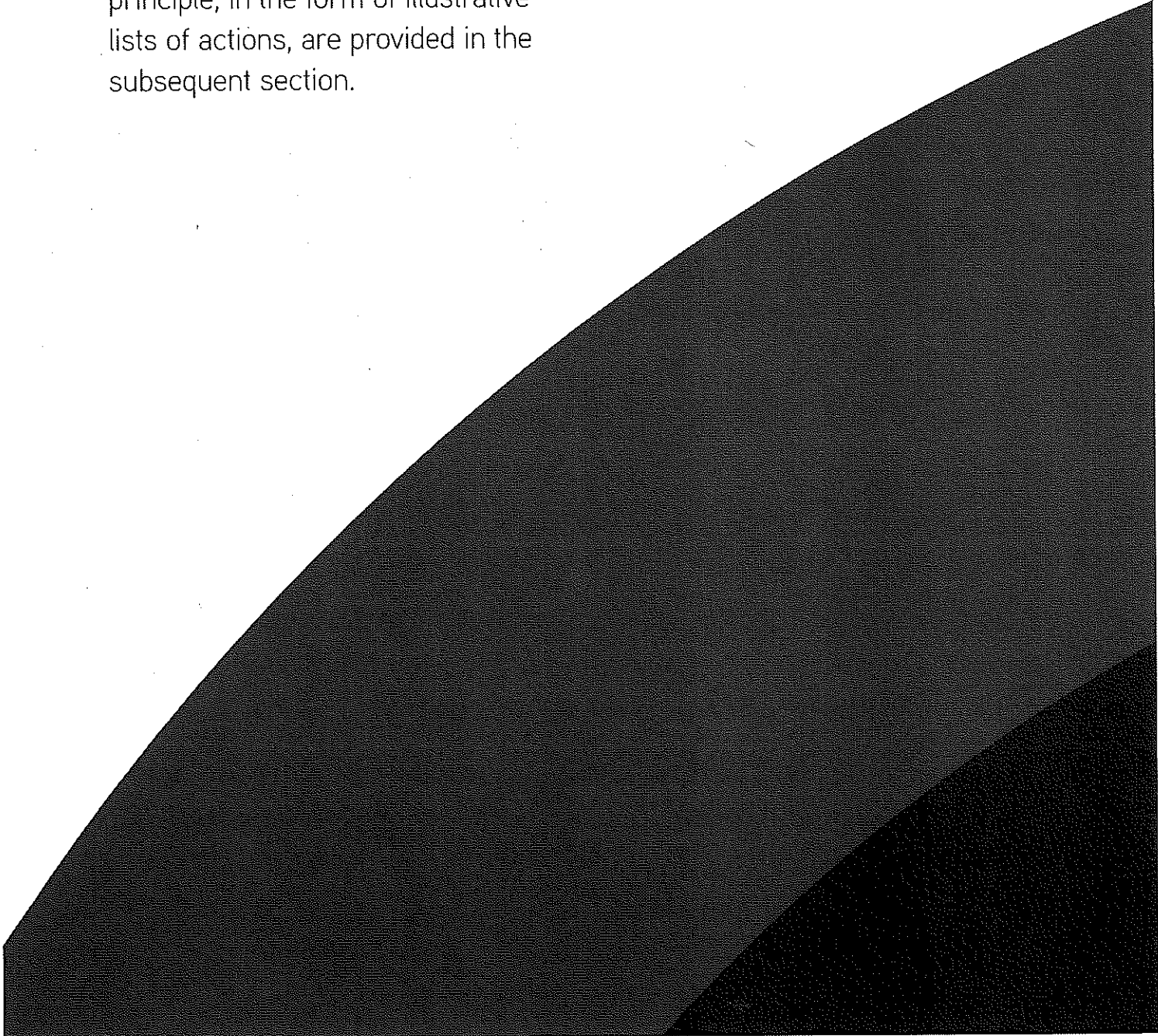


[GO TO DETAILED GUIDANCE](#)

# THE PRINCIPLES OF A PROFESSIONAL JUDGEMENT FRAMEWORK

## Summary of principles

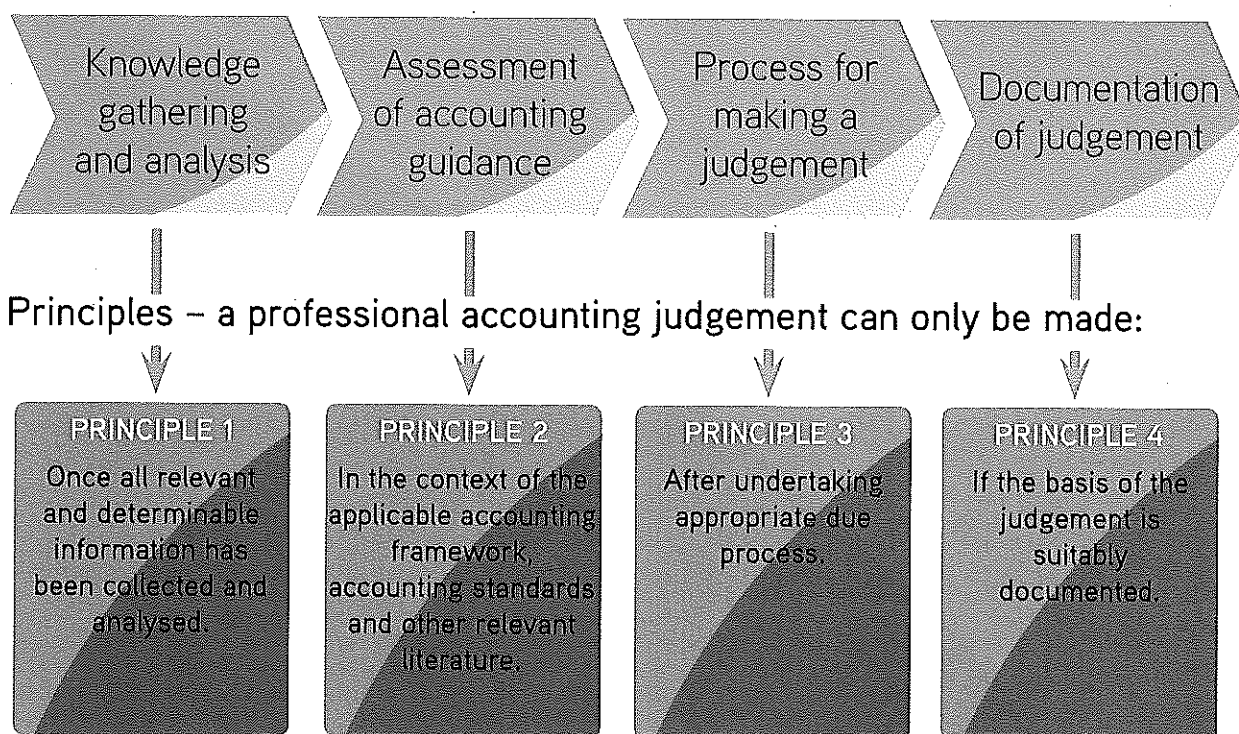
A summary of the key principles on which to base a professional accounting judgement, relevant to each stage in the process, is shown in the following diagrams. More detailed guidance on applying each principle, in the form of illustrative lists of actions, are provided in the subsequent section.



# PREPARERS – MAKING AND DOCUMENTING THE JUDGEMENT

Preparers, including directors, should ensure that appropriate papers and other documents are prepared and retained to record the process of making key judgements and support the judgements made. The preparer has responsibility for assessing and mitigating the risk of material misstatements. The onus is on the individual to identify all relevant and determinable facts at the time a decision is made.

## Stages in the preparation process



[GO TO USER GUIDE](#)



[GO TO DETAILED GUIDANCE](#)

## AUDIT COMMITTEES - CONSIDERING, REVIEWING AND CONCLUDING ON THE JUDGEMENT

### PRINCIPLE 1 - CREATING THE RIGHT ENVIRONMENT TO EFFECTIVELY REVIEW AND CHALLENGE THE JUDGEMENT

A professional judgement can only be made if at the meeting the facts are clearly laid out, the right people are in attendance, there is enough time for a full debate and the culture of the meeting is conducive to debate and challenge.

Ensure the committee has created the right environment to allow professional judgements to be effectively reviewed and challenged.

The committee should have appropriate terms of reference to give it the platform to challenge the judgement. The terms of reference should include a commitment to being independent and maintaining objectivity.

The committee should be independent and be seen to be independent, including the appointment of members, managing conflicts of interest and avoiding bias in decision making.

The committee should maintain an objective approach in assessing and challenging the judgement.

The meeting should be structured to ensure there is appropriate time set aside to review the judgement.

Effective challenge can only be exercised if the papers documenting the judgement are of high quality and available well before the meeting to allow time for consideration.

The development of mutual respect and trust between the committee members, the executives and the auditors is essential if a proper debate is to ensue.

There should be an opportunity for the auditor to meet the audit committee without executive present.

The audit committee should have balanced membership with an appropriate blend of skills and the required level of financial expertise.

## AUDIT COMMITTEES - CONSIDERING, REVIEWING AND CONCLUDING ON THE JUDGEMENT

### PRINCIPLE 2 - REVIEW OF PREPARER AND AUDITOR PAPERS

A professional judgement can only be made after undertaking due process to assess and constructively challenge the preparer's judgement and the auditor's analysis of it.

Do the papers presented to the audit committee set out the process taken in coming to the decision?

Have the reasons for the judgement been properly and fully set out?

Was the range of possible outcomes set out and is it clear why one outcome is recommended?

Is the treatment consistent with relevant accounting standards and consistent with accepted industry practice? If not, undertake further scrutiny of the reasons for this departure and consider if appropriate.

Have the preparers and auditors properly considered all information available to them?

Is there evidence that the auditors have exercised sufficient scepticism and challenge?

Are the auditors satisfied that the judgement is reasonable? If not, there must be clarity over the difference in views to allow the audit committee to come to a decision on how to resolve the difference. The audit committee should be aware of any undue pressures on the auditors.

## AUDIT COMMITTEES - CONSIDERING, REVIEWING AND CONCLUDING ON THE JUDGEMENT

### PRINCIPLE 3 - DECISION

A professional judgement can only be made after assessing and concluding on the judgement, based on the facts available and the responses given to the audit committee.

The audit committee should assess the judgement based on the facts presented to it by the preparers and auditors.

After due consideration of all the facts and following challenge both to the preparers and the auditors, the audit committee needs to conclude on the judgement and proposed accounting treatment presented to it, either accepting, amending or rejecting it.

The audit committee should consider the clarity and completeness of any financial statement disclosures related to the judgement.

The audit committee should ensure that the key points in making their decision are appropriately recorded in the minutes.



GO TO USER GUIDE



GO TO SUMMARY OF PRINCIPLES



Attached are the relevant pages from the Audit Scotland Technical Bulletin 2016/4 which deal with cross-sectoral issues in general, and the FE sector in particular.

Of particular interest is the section on professional judgements. A commentary on this is as below, together with commentary on **Practice Note 10 – Audit of Financial statements of Public Sector Bodies in the UK**. Relevant pages from these documents are enclosed.

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There is now a focus on the professional judgements used when preparing statutory financial statements. We are now required to make reference to the estimates and judgements used when preparing our financial statements. We did this in our last financial statements in note 24 which stated;

*“With the College accounting reference date reflecting the end of the academic year, there are very few estimates and judgements impacting upon the financial statements. There is very little teaching activity spanning the year end and the College is not involved in research activity. Funding from SFC is normally in respect of the academic year to 31 July. Stock is estimated at a nominal figure of £8k with all academic purchasing being held back until August and the start of the new academic year. A small provision for bad debts is adjusted annually based upon the profile of the relevant debtors.*

*The quantification of the final salary pension scheme involves assumptions and judgements as detailed in note 18. We take guidance from SFC and Hymans Robertson LLP when setting assumptions and the actuarial valuation of the Strathclyde Pension Fund liability is produced for the College by an actuary from Hymans Robertson LLP.*

*Depreciation rates are subjective but are in line with sector norms. Rates are approved by the Finance Committee following advice from the Head of Estates. As a well maintained new college, impairment of fixed assets is not considered to be an issue”.*

ICAS document, **a professional judgement framework for financial reporting** will assist us to add some structure to the process and enable the Audit Committee to assess, challenge and satisfy themselves on the judgements being made. The document is 35 pages long and a copy has been added to the Board portal. The relevant pages from the perspective of the preparer and the audit committee are enclosed for your review.

I suggest that the Audit Committee digest the document and I will table a paper at our next meeting considering, reviewing and concluding on the significant judgements involved in the preparation of our 2017 financial statements.

Technical bulleting 2016/4 also refers to the Public Audit Forum which has issued a revised version of **Practice Note 10 – Audit of Financial Statements of public sector bodies in the UK (PN10)**. I have placed a copy of this document in the Board portal. The document is specifically for the use of auditors but can be used by Audit Committee members wishing to find guidance on auditing practice within specific areas. I enclose a copy of pages 6 and 7 of the document which shows how normal audit practice is impacted by further guidance relevant to the public sector.



## Part 1: Application of International Standards on Auditing (UK)

1 A list of International Standards on Quality Control (ISQC) and International Standards on Auditing (ISAs) (UK) is shown in the table below. This identifies those ISQC and ISAs in respect of which application guidance is included in this Practice Note and, for completeness, also shows those ISAs for which there is no need for further guidance:

International Standard on Auditing (UK)	Further guidance relevant to the public sector context included in this part of PN 10	No further guidance relevant to the public sector context provided
ISQC 1: Quality control for firms that perform audits and reviews of financial statements, and other assurance and related services engagements	✓	
ISA 200: Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing (UK)	✓	
ISA 210: Agreeing the terms of audit engagements	✓	
ISA 220: Quality control for an audit of financial statements	✓	
ISA 230: Audit documentation		✓
ISA 240: The auditor's responsibilities relating to fraud in an audit of financial statements	✓	
ISA 250A: Consideration of laws and regulations in an audit of financial statements	✓	
ISA 250B: The auditor's statutory right and duty to report to regulators of public interest entities and regulators of other entities in the financial sector <sup>1</sup>		✓
ISA 260: Communication with those charged with governance	✓	
ISA 265: Communicating deficiencies in internal control to those charged with governance and management	✓	
ISA 300: Planning an audit of financial statements		✓
ISA 315 – Identifying and assessing the risks of material misstatement through understanding the entity and its environment	✓	
ISA 320 – Materiality in planning and performing an audit	✓	
ISA 330 – The auditor's responses to assessed risks	✓	
ISA 402 – Audit considerations relating to an entity using a service organisation	✓	
ISA 450 – Evaluation of misstatements identified during the audit	✓	

International Standard on Auditing (UK)	Further guidance relevant to the public sector context included in this part of PN 10	No further guidance relevant to the public sector context provided
ISA 500 – Audit evidence		✓
ISA 501 – Audit evidence – specific considerations for selected items		✓
ISA 505 – External confirmations		✓
ISA 510 – Initial audit engagements – opening balances	✓	
ISA 520 – Analytical procedures	✓	
ISA 530 – Audit sampling		✓
ISA 540 – Auditing accounting estimates, including fair value accounting estimates and related disclosures	✓	
ISA 550 – Related parties	✓	
ISA 560 – Subsequent events	✓	
ISA 570 – Going concern	✓	
ISA 580 – Written representations	✓	
ISA 600 – Special considerations – audits of group financial statements including the work of component auditors	✓	
ISA 610 – Using the work of internal auditors	✓	
ISA 620 – Using the work of an auditor's expert	✓	
ISA 700 – Forming an opinion and reporting on financial statements	✓	
ISA 701 – Communicating key audit matters in the independent auditor's report <sup>2</sup>		✓
ISA 705 – Modifications to the opinion in the independent auditor's report		✓
ISA 706 – Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report	✓	
ISA 710 – Comparative information – corresponding figures and comparative financial statements		✓
ISA 720 – The auditor's responsibilities relating to other information	✓	
<b>Notes</b>		
1 ISA 250B: The auditor's right and duty to report to regulators in the financial sector was revised in June 2016 and is now referred to as ISA 250B: The auditor's statutory right and duty to report to regulators of public interest entities and regulators of other entities in the financial sector.		
2 This standard is effective for audits of financial statements for periods commencing on or after 17 June 2016. Early application is permitted.		