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AUDIT & RISK ASSURANCE COMMITTEE

AGENDA

A meeting of the Audit & Risk Assurance Committee will be held at 15:00 hours on Wednesday, 27 February 2019 in the Boardroom, Milton Road Campus.

		Lead Speaker	Paper
1	WELCOME & APOLOGIES	Chair	
2	DECLARATIONS OF INTEREST	Chair	
3	MINUTES OF PREVIOUS MEETING <i>for approval</i>	Chair	A
4	MATTERS ARISING	Chair	B
5	SCOTLAND'S COLLEGES 2018 REPORT	Audit Scotland	C
6	INTERNAL AUDIT		
	6.1 Summary of Audit Recommendations	A Williamson	D
	6.2 Internal Audit Report: Corporate Governance	BDO	E Attached
	6.3 Internal Audit Progress Report	BDO	Verbal
<i>Item 6 is presently exempt from publication under the Freedom of Information (Scotland) Act 2002, Section 30, Prejudice to the Effective Conduct of Public Affairs.</i>			
7	RISK ASSURANCE		
	7.1 Three Lines of Defence Update	A Williamson	F
	7.2 Risk Management Report	N Croft	G
	7.3 Risk Deep Dive: Fraud and Anti-Bribery Report	L Towns	H
<i>Item 7 is presently exempt from publication under the Freedom of Information (Scotland) Act 2002, Section 30, Prejudice to the Effective Conduct of Public Affairs.</i>			
8	HORIZON SCANNING REPORT	N Croft	I
9	ANY OTHER COMPETENT BUSINESS		
	9.1 Audit Scotland Statutory Fees 2018/19	A Williamson	J
	9.2 Committee Business Schedule	N Paul	K

10 FOR INFORMATION
10.1 Data Breach Incident Update N Croft L

11 DATE OF NEXT MEETING: 29 May 2019

N.B: The minutes of the Audit & Risk Assurance Committee are reported directly to the Board of Management, with an accompany commentary from the Committee Chair.



FOR INFORMATION / DISCUSSION			
Meeting	Audit & Risk Assurance Committee 27.02.19		
Presented by	BDO		
Author/Contact	BDO	Department / Unit	Internal Audit
Date Created	19.02.19	Telephone	-
Appendices Attached	<i>Appendix 1: Internal Audit Report: Corporate Governance</i>		
Disclosable under FOISA	No.		

INTERNAL AUDIT REPORT: CORPORATE GOVERNANCE

1. PURPOSE

The review aims to provide independent assurance that appropriate arrangements are in place and operating effectively in relation to corporate governance at Edinburgh College.

2. BACKGROUND

As part of the 2018-19 Internal Audit Plan, it was agreed with the Audit Committee that Internal Audit would carry out a review of the corporate governance arrangements within Edinburgh College.

3. DETAIL

DBO are able to provide substantial assurance over the design and operational effectiveness of the controls in place with regard to Corporate Governance at Edinburgh College, subject to the timely implementation of the agreed outstanding tasks in the Board of Management's Development Plan.

The details of these recommendation can be found in the Audit Report, attached as Appendix 1.

4. BENEFITS AND OPPORTUNITIES

Internal audit recommendations are outlined within the attached report.

5. STRATEGIC IMPLICATIONS

The Audit & Risk Assurance Committee, on behalf of the Board, is required to ensure that effective internal controls are in place.

6. RISK

Not applicable.

- 7. FINANCIAL IMPLICATIONS**
Not applicable.
- 8. LEGAL IMPLICATIONS**
Not applicable.
- 9. WORKFORCE IMPLICATIONS**
Not applicable.
- 10. REPUTATIONAL IMPLICATIONS**
Not applicable.
- 11. EQUALITIES IMPLICATIONS**
Not applicable.

CONCLUSIONS/RECOMMENDATIONS

The Committee are asked to CONSIDER the attached internal audit report.

Edinburgh College

INTERNAL AUDIT REPORT - DRAFT

Corporate Governance

January 2019

LEVEL OF ASSURANCE

Design	Operational Effectiveness
Substantial	Substantial



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REPORT STATUS	
Auditors:	Gemma Macdonald
Dates work performed:	14 - 18 January 2019
Draft report issued:	31 January 2019
Final report issued:	

DISTRIBUTION LIST	
Nick Croft	Head of Corporate Development
Pauline MacPherson	Governance, Compliance and Information Officer

Restrictions of use

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)		SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II)	
Design	 There is a sound system of internal control designed to achieve system objectives.	High	
Effectiveness	 The controls that are in place are being consistently applied.	Medium	
		Low	 
		Total number of recommendations: 2	

OVERVIEW
<p>Background</p> <p>As part of the 208-19 Internal Audit Plan, it was agreed with the Audit Committee that Internal Audit would carry out a review of the corporate governance arrangements within Edinburgh College. The purpose of our review is to provide independent assurance that appropriate arrangements are in place and operating effectively in relation to corporate governance at Edinburgh College.</p> <p>The Corporate Governance structure at Edinburgh College consists of the Board of Management along with six sub committees as follows;</p> <ul style="list-style-type: none"> • The Academic Council which provides a forum for the debate of College wide Academic issues and deals with matters pertaining to the five Key Academic Themes. • The Audit & Risk Assurance Committee which has oversight of the College’s governance arrangements, financial systems, internal control environment and risk management arrangements. • The External Engagement Committee which has oversight of stakeholder engagement, marketing and economic research, business development and partnerships, and international development. • The Nominations Committee which identifies and recommends to the Board suitable candidates for Membership and also has oversight of the procedures for search, nomination and appointment of Board Members. • The Policy & Resources Committee which advises the Board on the College’s financial, estates and staffing matters along with any other areas of particular importance or complexity. • The Remunerations Committee which makes decisions regarding the remuneration package, terms and conditions and severance payments of the College Principal, Chief Executive, and College Executive Team. <p>Each committee has a terms of reference in place which outlines their purpose, authority, role and remit, membership and quorum requirements and the frequency with which meetings are to be held.</p>

EXECUTIVE SUMMARY

OVERVIEW

Minutes are taken at meetings of the Board and of each Committee and are confirmed as an accurate record at the following meeting.

Edinburgh College do not have a programme of work in place for the Board and committees. An agenda is produced for each meeting to set out the work that is to be covered in that meeting but there is no forward plan of what will be covered in the year. The agendas are made up of a number of standing items as well as one-off issues. Members can request an item be added to the agenda by giving notice at least eight working days before a meeting. The work performed by the committees was found to be in alignment with the College's Strategic Plan for the period 2017-22. Across the Committees, items discussed covered each of the five strategic aims of the College: delivering a superb student experience, providing an excellent curriculum, supporting and inspiring our people, valued in partnership and by communities, and an effective and efficient college.

In line with the Code of Good Governance for Scotland's Colleges (August 2016), the College carried out an Independent Evaluation on the Board of Management between August and November 2016. The report was approved by the Board on 13 December 2016. In accompaniment to this, a Development Plan was drawn up to aid the achievement of the recommended improvements raised in the Evaluation. Both of these items were submitted to the Scottish Funding Council in March 2017. A report giving an update on governance arrangements was presented to the Board for discussion in September 2018; this report noted the progress made on implementation of the Development Plan which at the time left only five of the twenty-eight objectives outstanding. It was decided that the following five outstanding objectives would be rolled over to the academic year 2018/19:

- All Board members to complete mandatory induction on governance within 6 months of joining
- Development of systematic approach to committee chair induction in line with code, to ensure consistent and effective convenorship
- Monitor and improve effectiveness of system introduced in 2015/16 to set and review progress against individual objectives. Supporting the process by which Board members reflect on their individual contribution and consider how they can continue to effectively support the Board going forward.
- Develop more systematic approach to mentoring of new non-executive, staff and student members to ensure consistency and effective decision-making.
- Introduce a critical debrief on selected decision as part of annual performance review; use findings for benchmarking in future years.

These five points remain outstanding at the time of this review.

As part of the requirements laid out in their Terms of Reference, each committee is required to undertake an annual performance evaluation and report the results to the Board. All of the committees, with the exception of the Remuneration Committee, undertook such a review in May 2018; as evidenced in the minutes of the meetings. Each Committee completed a standard form as part of this review which measures the compliance of the Committee's operation with their terms of reference over the year. The evaluation also involves responding to 12 questions focussing on the Committee performance in relation to self-monitoring activities, evaluating the effectiveness of their decision making process, and evaluating their efforts in relationship management.

EXECUTIVE SUMMARY

OVERVIEW

There is a documented process in place for the induction and development of new Board Members. As part of their induction, Members receive a security pass, college email address, intranet access and key governance documents. They are given the opportunity to meet with key figures and are made aware of the current training programme and any available courses. On appointment, members are sent a letter from the Board Secretary informing them of their appointment and providing relevant details of their role. The terms and conditions of appointment are attached along with a list of referenced documents. Prospective members are to sign and return a copy of the letter signalling their acceptance of the position and submission to the relevant terms and conditions. Following acceptance, new members are provided with an induction pack. As part of their induction pack, new Members receive a Board Induction Handbook which provides an overview of the key information required by Members. New Members also receive an induction presentation which is based on the Guide for Board Members in the College Sector and are signed up to the external College Development Network governance hub which provides training modules and a Board Induction Workshop. All current Members have received an induction to the Board.

Opportunities to attend training sessions are communicated to Members via email and a log is kept of Board Attendance, including training attendance.

A skills matrix is used to assess the balance of skills represented on the Board. This matrix shows each member with identification of both essential and desirable skills along with an analysis of the Scottish Government Board Requirements Guide, and is reviewed at each meeting of the Nominations Committee. The matrix was also referenced in two papers presented to the Committee in the period; one on Board and Committee Succession Planning, and one on Board Membership, Tenure and Capacity.

Governance arrangements have changed slightly in the last six months and are such that Executive meetings which deal with high-importance issues and matters of strategy are held monthly and Senior Management Team meetings are held formally fortnightly to deal with operational issues. The escalation process is guided by the head of function or faculty but generally most items go to the Senior Management Team unless they have major financial implications; in which case they would be escalated to the Executive Team. The agendas for meetings are set by the Executive Development Manager with the Principal having the final say. Future agenda items are requested at each meeting and also by a call for items email. Both the Executive and Senior Management Team operate using action lists to track follow up actions.

EXECUTIVE SUMMARY

OVERVIEW

Scope and Approach

The scope of this review was to assess whether:

- The Board and committee terms of reference are clear, comprehensive and do not overlap with those of other committees;
- Minutes of Board and committee meetings indicate strong engagement by all members;
- The Board and committees programme of work aligns with the Strategic Plan 2017/22;
- Members are provided with sufficient, timely and high-quality management information to effectively discharge their responsibilities;
- The Board and committees regularly assess their own effectiveness and take action on areas where required;
- Adequate arrangements for the induction and on-going education of Board members are in place;
- There is an effective internal governance arrangement at Executive, Senior Management, and sub group levels to ensure governance decisions are actioned and issues escalated when appropriate to the Board and committees.

Our approach was to conduct interviews with management and survey Board members, to establish the controls in operation for each of our areas of audit work. We referenced the Code of Good Higher Education Governance for in scope controls. We sought documentary evidence that these controls were designed as described and evaluated these controls to identify whether they adequately addressed the risks and aligned to the Code. We then sought to gain evidence of the satisfactory operation of the controls to verify the effectiveness of the control through use of a range of tools and techniques. A de-brief meeting was undertaken before completing the review on-site to discuss findings and initial recommendations.

Good Practice

We identified several areas of good practice in the course of this review:

- All of the Committees have a Terms of Reference in place which clearly and distinctly outlines their role and responsibilities and there are no gaps or overlap.
- All meetings of Board and Committees were sufficiently attended and there appears to be a high-level of engagement from attendees.
- The Board and each of the Committees have a programme of work which is effectively aligned with the Strategic Plan 2017-22.
- The Board and Committees have all effectively assessed their performance, training requirements and the balance of skills required.
- There are adequate measures in place to ensure Board Members receive an induction and are updated on issues which ought to be brought to their attention.
- There are effective internal governance arrangements in place to ensure decisions are actioned and issues escalated appropriately.

EXECUTIVE SUMMARY

OVERVIEW

Key Findings

Notwithstanding the good practice noted above, our review highlighted the following area for potential improvement:

Volume of Information: It was found that some members feel that there is too much information circulated to Members prior to meetings.

Programme of Work: It was found that the committees do not have an annual programme of work in place.

Conclusion

We are able to provide substantial assurance over the design and operational effectiveness of the controls in place with regard to Corporate Governance at Edinburgh College, subject to the timely implementation of the agreed outstanding tasks in the Development Plan.

EXECUTIVE SUMMARY

RISKS REVIEWED GIVING RISE TO NO FINDINGS OF A HIGH OR MEDIUM SIGNIFICANCE

- ✓ The Board and Committee terms of reference and roles and responsibilities may be unclear, overlapping or have gaps
- ✓ The Board and Committee meetings are not well attended or there is a lack of engagement
- ✓ The Board and Committees programme of work is not effectively aligned with the blueprint
- ✓ Members may not be provided with sufficient, high quality management information in their areas of responsibility
- ✓ The Board and sub committees may not have effectively assessed their performance, training requirements, and the balance of skills required within the Board and committees, or may not have taken effective action based on these assessments
- ✓ There is not an effective internal governance arrangement at Executive, Senior Management, and sub-group levels to ensure governance decisions are actioned and issues escalated when appropriate to the Board and committees

DETAILED RECOMMENDATIONS

RISK: Members may not be provided with sufficient, high quality management information in their areas of responsibility			
Ref.	Finding	Sig.	Recommendation
1	<p>It is important that members are provided with an appropriate level of information prior to meetings in order to effectively execute their duties.</p> <p>In the course of this audit it was found that some members feel that there was too much information circulated to members prior to meetings.</p> <p>The results of this may be that it is difficult for members to absorb the most relevant information before meetings as they may feel overwhelmed by the volume of reading. This can then negatively affect their ability to contribute at meetings as members may feel ill-prepared and time is devoted to noting papers rather than discussing and challenging items.</p>	●	<p>It is recommended that the College reviews the volume and format of information circulated to members in order to ensure members receive only what is necessary and relevant to the exercise of their responsibilities.</p> <p>The College should try to limit repetition by referring members to previous papers rather than repeating the information. They may also wish to make use of an executive summary when writing papers in order to highlight the most important information at the beginning of the paper.</p> <p>It is noted from discussion with management that this is an issue which is currently under consideration.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
<p>The matter is currently being considered by management and the recommendation will be included in the upcoming External Governance Review, commissioned by the Board. The Governance Review is scheduled to take place in early/mid 2019 (to be confirmed).</p>		<p>Responsible Officer: Head of Corporate Development</p> <p>Implementation Date: September 2019</p>	

DETAILED RECOMMENDATIONS

RISK: The Board and Committees programme of work is not effectively aligned with the blueprint			
Ref.	Finding	Sig.	Recommendation
2	<p>It is important that Board and Committee meetings follow an appropriate plan of work in order to ensure they effectively cover all areas of their remit throughout the year and make the most efficient use of their time.</p> <p>During this review we found that the committees of Edinburgh College do not have a programme of work in place to forward plan the contents of their meetings in the year.</p> <p>The results of this may be that the committees do not effectively and efficiently cover all areas of their responsibility throughout the year. This could result in important issues being left until the end of the year or being missed from meetings completely.</p>	●	<p>It is recommended that Edinburgh College implement a programme of work for each of their committees which is used to plan out the items which should be covered at each meeting throughout the year.</p> <p>This will allow the College to effectively cover all areas of committee remit in a timely manner.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
<p>There are already scheduled update items on the strategic plan and blueprint, ROA, ECSA and the Principal's activities at every Board meeting. At the start of 2018/19, the Academic Council and Audit & Risk Assurance Committee produced programmes of work to be covered throughout the academic year. In addition, the Policy and Resources Committee regularly reviews financial, estate and HR matters as part of its work programme.</p> <p>However, to further improve the approach, and respond to the Internal Audit recommendation, the College will work with every committee to outline an annual programme of work at the start of each academic year, for review and agreement by members.</p>		<p>Responsible Officer: Head of Corporate Development</p> <p>Implementation Date: September 2019</p>	

OBSERVATIONS

Remuneration Committee Performance Evaluation

3. It is important that the Board and all Committees regularly evaluate their performance in order to identify any areas where improvements can be made.

It was found that the Remuneration Committee had not undertaken a performance evaluation in the period. When discussed with management it was found that performance evaluations have been undertaken for the Remuneration Committee in the past but this year the decision was taken not to have one as a result of the departure of one member and the concurrent sickness of another which left only one member of the Committee. These membership changes, when considered along with the ad hoc nature of the meetings of this Committee, led to the decision not to undertake an evaluation.

It is therefore recognised that it was exceptional circumstances outwith the Committee's control that prevented the undertaking of the evaluation; instead the Committee reviewed the terms of reference at the next meeting and agreed that the current governance arrangements were appropriate.

Academic Council Attendance

4. It is important that Committee meetings are well attended to ensure full engagement and contribution by members.

Although it was found that all meetings of the Academic Council were quorate, and therefore operating within the terms of reference, it was noted that there was a high number of apologies received at each of the meetings in the academic year.

The result of many members being unable to attend meetings may be that members are unable to effectively contribute or the views of certain faculties may not be represented at meetings.

When raised with management it was noted that this was an issue they have previously identified and discussed. It is something which has been difficult to avoid with the high membership numbers on this Committee - with teaching representatives from each faculty it is often the case that something urgent comes up at the last minute or there are travel issues. Discussion has therefore been held with regards to the best location for meetings.

It is recommended that management consult the members of the Committee to ascertain what the main causes of absence are and how these can be addressed. The College may wish to consider giving an extended period of notice for meetings of the Academic Council to encourage full attendance.

OBSERVATIONS

Development Plan Outstanding Points

5. It is important that Edinburgh College implement all of the agreed upon points in their Board of Management Development Plan in order to help them achieve their strategic aims.

During the course of our review we found that there were still five development points outstanding. These were as follows:

1. All Board members to complete mandatory induction on governance within 6 months of joining
2. Development of systematic approach to committee chair induction in line with code, to ensure consistent and effective convenorship
3. Monitor and improve effectiveness of system introduced in 2015/16 to set and review progress against individual objectives. Supporting the process by which Board members reflect on their individual contribution and consider how they can continue to effectively support the Board going forward.
4. Develop more systematic approach to mentoring of new non-executive, staff and student members to ensure consistency and effective decision-making.
5. Introduce a critical debrief on selected decision as part of annual performance review; use findings for benchmarking in future years.

The risk is that Edinburgh College could fail to meet their strategic objectives if they do not fully implement their Board of Management Development Plan.

Following discussion with management it was acknowledged that there are plans in place to ensure completion of these points as follows:

1. This is aimed for completion by April 2019 following the next round of induction training offered by CDN.
2. Delayed until 2019 to allow the new Chair of the Board to consider appropriate action(s)
3. Delayed until 2019 to allow the new Chair of the Board to consider appropriate action(s)
4. Delayed until 2019 to allow the new Chair of the Board to consider appropriate action(s)
5. Critical debriefing session to be held at Board Development Day on 30 April 2019.





APPENDIX I - STAFF INTERVIEWED




NAME	JOB TITLE
Nick Croft	Head of Corporate Development
Marcus Walker	Clerk and Governance Advisor to the Board

NAME	JOB TITLE
Trish Hanlon	Executive Development Manager
Emma Degnan	Executive Support

BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation. We would also like to thank all the Board/Committee members who took the time to respond to our questionnaire.

APPENDIX II - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate 	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
High 	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium 	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low 	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

APPENDIX III - TERMS OF REFERENCE

PURPOSE OF REVIEW



The purpose of this review is to provide the Audit & Risk Committee with a level of assurance around the current corporate governance arrangements and provide management with advice and recommendations for improving the arrangements further.

We will assess whether management committees have a clear and appropriate terms of reference and programme of work, and whether meetings are well attended and effective engagement demonstrated. We will also consider whether the committees are receiving sufficient high-quality management information to discharge their role and whether there is effective alignment with the 'blueprint'.


This review will include an examination of internal governance arrangements at Executive, and Senior Management Group, and related sub groups that are taking decisions related to the business of the College.

KEY RISKS



Based upon the risk assessment undertaken, discussions with management, and our collective audit knowledge and understanding the key risks associated with the area under review are:

- The Board and committee terms of reference and roles and responsibilities may be unclear, overlapping or have gaps;
- The Board and committee meetings are not well attended or there is a lack of engagement;
- The Board and committees programme of work is not effectively aligned with the blueprint;
- Members may not be provided with sufficient, high quality management information in their areas of responsibility,
- The Board and sub committees may not have effectively assessed their performance, training requirements, and the balance of skills required within the Board and committees, or may not have taken effective action based on these assessments;
- There may be inadequate arrangements for induction of Board members, or for continual updating of members on issues which should be brought to their attention;
- There is not an effective internal governance arrangement at Executive, Senior Management, and sub group levels to ensure governance decisions are actioned and issues escalated when appropriate to the Board and committees.



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