



Report to the Board 22/06/2023

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Subject:	Annual Audit Committee Report to Board	
Purpose of paper:	<i>This paper outlines the work of the Audit Committee for the academic year 2022/23 covering key activity and matters for the attention of the Board. This is usually prepared in December when all activities of the year have been completed however in light of merger the paper will be completed now and form an element of handover for the merged college.</i> <i>Not all Internal Audit information is in final form.</i>	
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Annual Audit Committee report to the Board

for the year 2022-23

Introduction

This annual report follows the format recommended by the head of UHI Audit in June 2017, as a way of regularising and improving the annual reports which are submitted from the Audit Committees of partner colleges to their Boards.

The College's Risk Management policy also requires an annual report to the Board on the operation of the policy, management of risk and most significant risks faced by the College to the Board of Management in December each year, this has been brought forward to the June meeting in light of the planned merger.

This report covers the activities of the Audit Committee during the financial year 1 August 2022 – 31 July 2023 however in light of the merger to form North West and Hebrides has been prepared in May 2023 so in advance of the completion of the year. As a result not all information is available at the time of drafting and approval.

Membership

The following were members of the Audit Committee throughout the year in question (or as specified):

Neil Hope (Convenor to November 2022) (ceased to be a member of Audit Committee from December AGM)

Duncan Ferguson

Nigel Patterson

Robert Kelly (until December AGM)

Charlotte Wright (member throughout and Convenor from December 2022)

The Principal of the College, the senior Finance post holder, and the internal and external auditors are all invited to attend all meetings. The head of UHI Audit received all papers and has an open invitation to attend any meeting.

The Clerk to the Committee was Katrina McGough, Governance Professional / Secretary to the Board.

Meetings

The schedule of meetings, and attendance of members, is as follows:

	06 Sept 22	22 Nov 22	7 Mar 23	30 May 23
Neil Hope	Attended	Attended	-	-
Duncan Ferguson	Attended	Attended	Attended	Attended
Nigel Patterson	Attended	Attended	Attended	Attended
Robert Kelly	Apologies	Absent	-	-
Charlotte Wright	Attended	Apologies	Attended	Attended
Director of Finance & Resources (attending)	P Watson	Gavin Teasdale/ Paula Watson	-	Derek Bond
Principal (attending)	L Rohmer	L Rohmer	Sue Macfarlane	Sue Macfarlane
Internal Audit	Steve McNaught	David Archibald	Stuart Inglis	David Archibald
External Audit		Martin Johnstone		Martin Johnstone
Other (attending)	Rachel Cumberland	Fiona Grant		

Terms of Reference

There were no changes made to the Terms of Reference during the year.

Internal Audit

1. Henderson Loggie undertook the third year of their contract as internal auditors for West Highland College UHI. The firm has been paid an annual fee.

Members of the Audit Committee and the Director of Finance & Resources evaluated the performance of the previous internal audit cycle and the Committee was satisfied with the effectiveness and value for money of Henderson Loggie as Internal Auditors.

2. *Review of appointment*

Henderson Loggie were appointed as internal auditors of West Highland College UHI ('the College') through competitive tender for the period 1 May 2020 to 30 April 2022, with an option available to the College to extend for a further two 12-month periods.

All reviews were undertaken in line with the programme of works with the exception of replacing the audit of catering with and cyber review.

3. *Review of internal audit annual report*

Following an Audit Needs Assessment a strategic plan was formulated covering the period to 31 July 2023. Work has been completed in line with that plan apart from the decision to replace the catering audit with a review of cyber security and there were no Priority 1 issues identifying major internal control weaknesses noted from the internal audit work carried out during the year. In general, procedures were operating well in the areas selected, but a few areas for further strengthening were identified and action plans have been agreed to address these issues. The agreed actions will be followed-up formally passed for consideration to the Board of the merged college to be reviewed and addressed post-vesting which is expected to be 1st August 2023.

The Internal Audit Annual Report noted significant issues in relation to asset/fleet management with that audit graded as 'Requires Improvement' identifying:

- 0 urgent (priority 1) recommendations
- 4 important (priority 2 recommendations and
- 3 routine (priority 3) recommendations

The other audits identify no other issues of major internal control weakness with procedures operating well and minor recommendations to strengthen practice.

The Internal Auditors report states:

In our opinion, with the exception of the issue raised around asset / fleet management at paragraph 1.10 above, the College has adequate and effective arrangements for risk management, control and governance. Proper arrangements are in place to promote and secure Value for Money. This opinion has been arrived at taking into consideration the work we have undertaken during 2022/23, and in prior years since our initial appointment in 2020/21.

4. *Review of the audit risk assessment and strategy*

All the intended internal audit work had been carried out and there have been no restrictions placed on the work of the internal auditors.

Four reviews were carried out during the year:

Budgetary Control – assessed as **Good**

Equalities – assessed as **Satisfactory**

Fleet and Asset Management – assessed as **Requires Improvement**

Cyber Security (replacing the previously planned catering review), - assessed as **Satisfactory**

Follow up reviews considered 10 recommendations of which 4 have been implemented, 4 partially implemented, 1 with little progress and 1 considered but not to be implemented.

5. In all, the internal auditors carried out 21 days of audit work within scope of their Annual Report. This compares to 21 in the previous year.

The purpose of the audits is to assess the combined effectiveness of the controls in mitigating the key risks. These assessments are ranked Good, Satisfactory, Requires Improvement and Unacceptable.

6. *Review of audit reports*

The Audit Committee reviewed in detail the reports received.

Budgetary Control: Of 7 areas covered 6 were rated Good and one Satisfactory with an overall assurance level of Good. This provides strong assurance in light of both merger and the challenges facing the sector with particular note made of the relationships and support to departments supporting agile monitoring, problem solving and decision making.

Equalities: Of 3 areas covered 2 were rated Good and 1 Satisfactory with an overall assurance level of Satisfactory. The missing reporting around Equalities Mainstreaming is an item at the June Board.

Fleet and Asset Management: Of the 8 areas covered 2 were rated Good and 1 Satisfactory, the remaining 5 were rated Requires Improvement relating in particular to record keeping and also the ability to source garages able to meet 10-weekly check.

Cyber Security: Of 3 areas covered 2 were rated Satisfactory and 1 Good with an overall assurance of Satisfactory. These findings relate to the controls for which the College is responsible and did not test controls managed by UHI. The Audit identifies opportunities in relation to Board awareness and reporting beyond the risk register.

Follow-Up Reviews: The Auditors concluded the College had made good progress in implementing the recommendations made in previous reports.

The Audit Committee receive and consider an Audit Tracker at each meeting to monitor progress and prepare a report to the Board to ensure wider awareness and escalation of key matters. Audit Committee members were satisfied with reports, recommendations and the management response. The Committee recommends continued focus on delivering actions identified in the period leading up to the prospective merger to ensure transfer of the College in the best position possible.

7. *Review of unplanned or special reports*

There were no unplanned or special reports produced during the course of the year.

8. *Review of VFM studies*

There were no specific VFM studies in the course of the year although the College's approach to value for money is integral to the assurance work carried out by the internal auditors.

9. *The Audit Committee took the opportunity to meet separately with the internal auditors at its November 2022 meeting. There were no issues identified.*

External audit

1. Armstrong Watson were appointed for three years in June 2020 and provided its third audit of West Highland College UHI's statutory accounts in December 2022. Appointment was made following market testing. In light of the planned merger and subsequent wind up of West Highland College as a company and charity an extension has been agreed for 2022/23.
2. The plan and timetable for the external audit for the 2022-23 accounts is expected to be provided to the Board in June 2023. The firm charges an annual fee, about which the Audit Committee has been informed.
3. Members of the Audit Committee and the Director of Finance & Resources evaluated the performance of external auditors. In summary, there was good satisfaction with the effectiveness and value for money of Armstrong Watson.
4. *Details of any non-audit services provided.*

No other work was carried out this year by the College auditors.

5. *Review of the external auditors' management letter (re Audit of 2021-22 accounts)*

Martin Johnston, representing Armstrong Watson, presented the Audit Findings Report for 2021-22 to the meeting of the Audit and Finance & General Purposes Committees in November 2022. The management letter was submitted to the Board on 14 December 2021.

The Auditors did not identify any significant deficiencies in the internal controls.

The report identified matters for the Board attention in relation to:

Impairment of Assets Under Construction the costs for Mallaig were written off however STEM remains subject to review for tangible progress in the coming year.

Merger and Going Concern in light of the financial strength of the College and the approach to merger the use of accounts on a going concern basis were deemed to be appropriate.

Apprenticeship Levy an amount was incorrectly allocated to the balance sheet and was reallocated to the statement of comprehensive income.

EU Research Projects management have adjusted amounts to correct an issue in previous reporting. The amounts were deemed immaterial and the auditors were satisfied no prior year restatement is required and that managements treatment of the correction is appropriate.

Recognition of cash sales have been on a cash basis and it is recommend this moves to accruals basis in line with the College accounts approach.

The College Board and Management Team accepted all recommendations.

6. *Confirmation that the audit committee has held a closed meeting with the external auditors following completion of the audit.*

Stuart Inglis (Henderson Loggie - Internal Audit) and Martin Johnston

(Armstrong Watson - External Audit) met with members of the joint committees without the presence of any of the senior management team, following the practice of previous years. No issues were raised by either party.

Other work done

1. Audit Committee members examined the annual accounts and associated statements in detail alongside members of the Finance & General Purposes Committee at the November 2022 joint meeting. These accounts were submitted to the Board of Management at its meeting of 13 December 2022.
2. In addition to the auditors' assurances, significant other sources of assurance provided to the Board are painting broadly the same picture. These other sources include feedback from Education Scotland and student evaluations. There is therefore a strong basis for confidence in their veracity.
3. A comprehensive Risk Management Framework with alignment to the new College Strategy, operational plans and risk appetite is in use and the Committee recommends this as a good practice approach for consideration of the merged college.
4. As part of its normal business, the Audit Committee has examined a number of other related matters over the course of the year. It routinely receives Complaints reports, and there has been nothing of any concern to the Committee with these. It is supplied with a routine report on Freedom of Information requests and Data Breach Reports. It endorses all relevant new and revised policies which, in 2022-23, amounted to none. In light of the planned merger it was decided to suspend routine reviews of existing policies and focus purely on identified requirements for new policies of critical amendments as the merger activity and new college are expected to perform a comprehensive review of policies.
5. The Committee reviewed key matters relating to the governance, scope and approach of the Merger Project Board and the Transition Board in relation to endorsing approaches and requesting minor enhancements to the proposed approaches. In addition the Committee considered the proposals and risks arising from the proposed merger and the consequences of implementation.
6. The convenor of the WHC Audit Committee during 2022-23 was a member of the UHI Audit Chairs' meeting.
7. In light of the anticipated merger no evaluation separate from the Board evaluation is planned
8. A documented approach to decision making outwith Meetings was in use identifying the criteria applied to the approach selected and the process to be adopted to ensure greatest engagement and transparency alongside efficiency of action. This allows Committees and the Board to engage proactively particularly where decisions are likely to be required out with the standard meeting schedule due to procurement requirements.

9. The Committee implemented a change to the routine timing for evaluation of auditors to March to be the meeting immediately following closure of accounts to ensure relevance and recency.

Other (issues not relevant to the current year) *Such as forthcoming events and issues relating to prior years.*

Significant risks faced by the College

The Committee was provided with the risk register at each of its meetings. The focus has particularly been on the implications of sectoral funding and of the merger process.

- In September residual risk ratings were increased in relation to Core Grant Funding and the potential for Failure to Recruit and Retain Key Staff.
- In December the Committee endorsed increased risk scoring in relation to Student Targets in light of regional and sectoral trends, Provision to businesses in light of funding uncertainty, Managing Industrial Relations in light of pay uncertainty, Impact of UHI Change Programme in light of UHI 2024 uncertainties, Provision of Student Accommodation, Executive Capacity in light of merger workload and a Risk of loss of staff as a result of the merger process. Risks were reduced in relation to Realising Digital Ambition and COAST milestones.
- In March the Committee endorsed reduced scoring in relation to Failure to Recruit and Retain Key Staff in light of recruitment to the Financial Director vacancy and appointment of Interim Principal in January
- In May the Committee endorsed reduced scoring in relation to 'Failure to deliver Excellence for all' and the addition of new risks relating to
 - 1) Lack of confidence/uncertainty and unrealistic expectations of merger by Staff and Students
 - 2) Strategic decisions are based too strongly on the assumption of merger.
 - 3) Failure to complete transfer actions.

At each meeting, the Board receives a report from the Audit Committee on its most recent meeting and changes made to the Risk Register form part of this report.

The full Risk Register is scheduled to be reviewed by the Board at least once a year (in March of each year). In 2023 risks were explored in detail as part of a pre-Board workshop and approved at the March Board meeting.

The most significant risks faced by the College continue to be financial with increasing uncertainties in relation to various elements of funding. Mitigation brings RAG ratings down from red to amber however increasing uncertainties across the sector remain. Additionally risks relating to the success merger and vesting of the new North West and Hebrides college on 1st August 2023 with significant pressure on staff to maintain the standard of delivery to our students while taking on the considerable challenges of merger preparation with the heaviest burden being carried by a few individuals.

The addition of UHI, Project and Merger risks to the risk register allows the Committee to take a holistic view across the range of risks and understand potential interdependencies.

Matters recommended for the consideration of UHI North West & Hebrides post vesting on 1st August 2023

The Audit Committee recommend consideration of the structure and function of the West Highland Risk Management Framework in providing a strong tool for the consideration, management and tracking of risk and mitigation. Adoption of the framework has contributed to the ability of the Committee to look across a variety of risks with an awareness of how they link and how mitigations are approached in a balanced but meaningful way.

The Audit Committee considered the Moray Draft Cyber Assurance Framework in September and November 2022 and recognise this as providing a good starting point for further development. The opinion of the Committee is that this is very high level in the form reviewed and further work would enhance is identifying sources of assurance to support policy and procedure. In light of the shared nature of cyber provision and cyber assurance across the UHI partnership the Committee would recommend review and ongoing monitoring of cyber assurance using a structured approach to recognise technical controls, policy, procedure, contracts, student and staff behaviours, the requirements of our teaching/learning/research provision. Cyber Assurance is perceived to be a growing risk for all organisations and developing the awareness of all Board Members would be of value. In addition, identification of a Board Champion or Observer to the Board who can bring sufficient insight to the Board may enrich decision making and assurance in relation to these matters.

The Committee recognise the opportunity merger provides to look across the three organisations to identify good practice and implement new approaches to embed assurance into our processes and culture in a way that minimises the burden of monitoring and compliance.

The Committee recommend that UHI West Highland provide the Audit Tracker to the Board of UHI North West & Hebrides updated to July 31st 2023 to enable that Board to review and manage all risks and recommendations identified therein.

Opinion

In the opinion of the Audit Committee, the College has adequate and effective institutional arrangements for:

- risk management, control and governance (risk management element includes accuracy of statement of internal control included with annual statement of accounts)
- economy, efficiency and effectiveness (value for money).

These opinions are based on the information presented to the committee.

Circulation: Copy to the Board and Auditors once approved by the governing body
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