

## Annual Report of the Audit Committee 2021/ 2022

### **1. Introduction and summary**

The context in which the College operated during 2021/22 has been, and continues to be, a challenging financial landscape to work within. Challenges, some specific to local issues such as population decline, increasing housing and travel issues and lack of funding for 'Distant Islands Allowance' and also wider Education sector and Public Sector pressures in respect of the adverse financial environment, as well as the highly uncertain political environment. The College faces significant risk around its financial sustainability and responsiveness to change within the current operational climate.

To help meet these challenges, the College is in the process of reviewing its risk management framework and reform of its risk register. The Audit Committee is responsible for scrutinising and assessing the management of the risks. The Committee receives the latest version of the risk register for this purpose. The risks have also driven in part the development of next year's Audit Plan, 2022/23.

The College Board made a strategic decision to explore merger with two other UHI colleges - North Highland and West Highland during the year. The three Boards all unanimously voted in favour of merger in November 2022, with submission of the business case to the SFC and Parliament on 4 November 2022. Providing necessary approvals go ahead, a vesting date for the new College will be 1 August 2023.

The Audit Committee plays an increasingly significant role in the College's governance, at a time of challenging operational context as well as the opportunities and changes that will come with the merger on the very near horizon.

In recent years, a specific challenge for the Audit Committee has been the timeliness of the implementation of actions agreed in response to Internal and External Audit recommendations. To address this, the Audit Committee approved an audit tracker to be implemented, which allows for all Internal and External Audit recommendations to be collated with status, timeline and actions documented. Significant progress has been made in 2021/22 in clearing the backlog and historic recommendations, and review is ongoing by the Committee to ensure an effective plan is in place to resolve the outstanding items.

A new Chair was appointed to the Audit Committee in 2021/22 as well as two other new members. Members have benefitted from induction presentations from senior officers. In addition, in September 2022, a Board Strategy event was held (hybrid) to learn directly from senior management and departmental staff about operations and challenges.

The Audit Committee is required to submit an annual report to the Board. The purpose of the report is to set out the current membership and constitution of the Audit Committee, to report on its work and activity over the last financial year and to provide the Committee's and the auditors' opinions on the adequacy and effectiveness of the College's systems of risk management, control, governance, and value for money.

The main Section of this year's annual report has been re-structured around the Audit Committee's key responsibilities of obtaining assurance on

1. Adequacy and effectiveness of College's internal controls, risk management and governance arrangements
2. Adequacy and effectiveness of arrangements for securing economy, efficiency and effectiveness

3. View of the Audit Committee as to the Board of Management's discharge of its responsibilities
4. View of the Audit Committee on whether the SFC Code of Audit Practice has been complied with and quality assurance of data returns

The report incorporates the opinion of the Internal Auditor, please refer to section 4 of this report.

Finally, Auditing Standards require External Audit to formally update their understanding of the UHI Outer Hebrides – Innse Gall's Audit Committee's arrangements for oversight of management processes and governance. This is done annually and in September 2022, the Audit Committee formally approved a response to this request. Please refer to Appendix 1.

## **2. Overview of the Audit Committee and it's work**

### *2.1. Role and membership of the Audit Committee*

The Audit Committee has provision for a minimum of four Members. The Board Chair, the Principal and the Director of Finance, Head of Finance, Internal and External Auditors are not members but attend meetings at the invitation of the Committee. Four meetings took place in 2021/22 together with a joint meeting with Finance and General Purposes Committee. Following the recent recruitment campaign in summer 2022, the Committee has 5 Members which safeguards the achievement of a quorum at all meetings.

This report covers the period from 1 August 2021 to 31 July 2022. During that time the membership of the Audit Committee was as follows:

<b>Committee Member</b>	<b>Status</b>	<b>Appointed</b>	<b>End date</b>
Jill Jones Non-executive Chair of Audit Committee	Active	27.06.2022	26.06.2026
Georgina Marczak Non-executive	Active	03.2020	03.2024
Fiona Kolontari Non-executive	Active	15.10.2021	15.10.2025
Ralph Tonge Non-executive	Active	27.06.2022	26.06.2026
Sarah Fraser Non-executive	Active	27.06.2022	26.06.2026
Murdoch Macleod Non-executive Chair of Audit Committee	Resigned during the year	28.10.2018	31.05.2022
Billy MacKinnon Teaching Rep.	Resigned during the year	01.08.18	25.04.2022
Norman Macleod Non-Teaching Rep	Resigned during the year	01.08.18	27.10.2021
Martin Malcolm Non-executive	Resigned during the year	03.2020	27.10.2021

### **2021/22 Meetings Attendance**

<b>Name</b>	<b>Audit</b>	<b>Audit&amp; F&amp;GP</b>
Ian MacCulloch	n/a	1/1
Georgina Marczak	3/3	1/1
Alison McCleery	n/a	0/1
Fiona Kolontari	2/2	0/1
Steven MacLennan	n/a	1/1
Barbara Keating	1/1	n/a
Murdoch Macleod	3/3	1/1
Tyler Daniels	n/a	1/1
Billy Mackinnon	2/2	1/1
Martin Malcolm	1/1	n/a
Norman Macleod	1/1	n/a
Jill Jones	n/a	n/a
Ralph Tonge	n/a	n/a
Sarah Fraser	n/a	n/a

The Committee's responsibilities include: the compilation of an annual audit report for consideration by the Board, recommending the approval of the Annual Accounts to the Board, advising, and reviewing and monitoring governance arrangements. The Committee also receives and considers reports from the Scottish Funding Council as they affect the College's business, and monitors adherence to the regulatory requirements and has responsibility for reviewing the Board's risk management framework, its strategic risks and consideration of management's review of operational risks.

The Committee advises the Board on the appointment and remuneration of Internal Auditors who have direct access to the Chair of the Board of Management and to the Audit Committee. Management is responsible for the implementation of agreed audit recommendations and the Internal Auditors undertake periodic follow-up reviews to ensure that such recommendations have been implemented. The Audit Committee considers detailed reports together with recommendations for the improvement of the College's systems of internal control and management's responses and implementation plans. The Chair, the Director of Finance & Resources (from December 2021) and the Head of Finance meet separately with the External and Internal Auditors before each Committee meeting to review progress on a Corporate Management Team (CMT) Audit Action Tracker (Internal and External Audit recommendations) that is also reviewed regularly in CMT meetings. These arrangements were introduced in the course of 2020/21. The Committee holds an in-camera session annually.

The full Terms of Reference for the Audit Committee are set out in Appendix 2.

## *2.2. How the Audit Committee gains assurance*

The Audit Committee's opinion is based on the Committee's consideration of the College's Risk Register, the Internal Auditor's annual report, the External Auditor's Management Letter, any other work commissioned by the Committee during the year and on discussions at its meetings.

The Audit Committee is required to provide an opinion on the adequacy and effectiveness of the College's arrangements for:

1. Adequacy and effectiveness of College's internal controls, risk management and governance arrangements
2. Adequacy and effectiveness of arrangements for securing economy, efficiency and effectiveness
3. View of the Audit Committee as to the Board of Management's discharge of its responsibilities
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## *2.3. Specific areas of work*

In 2021/22, the Audit Committee has looked at several key areas of operational risk including via Internal Audit report:

### 2021/ 22 Statutory Internal Audits:

- (1) Student Support Funding, (2) Education Maintenance Allowance Funding and (3) Credits

### 2021/22 Operational Internal Audits

- (1) Budgetary Control, (2) Income Management, (3) Cyber Security and (4) Marketing and Communications.

### Other Matters

The HR function for the College during 2021/22 was an area of specific focus and investment which will help deliver operational effectiveness, compliance with governance, support staff and enable several outstanding audit recommendations to be closed. A senior HR advisor has been recruited

into the College, with support from a shared Director of HR, who operates across all three proposed merged colleges. Further capacity has been allocated to this department with an assistant of adhoc expertise at UHI Perth for HR advice regarding Voluntary Severance. The College commenced the set up of a new HR system in the year also, with work ongoing to fully 'go live'.

Expertise in VAT related issues continues to be provided by VAT Liaison, part of the Liaison Group a consultancy service for the public sector.

## *2.5. Review of risk management*

During 2021/22 and continuing into 2022/23, senior management have considered the College's key risks within the context of the College's evolving priorities, prior to scrutiny and approval of the College's risk register through the Audit Committee and the Board. The Audit Committee now plays a greater role in scrutinising risks on the College's risk register and challenging senior officers on the management of those risks.

## *2.7. Challenges for 2022/23*

Over the course of 2021/22, a number of themes have emerged from audit findings and information provided through presentations to the Audit Committee, as well as sector wide pressures, examples being; financial sustainability, risk management, estates utilisation, human capital, sustainability, net zero, student recruitment, energy and inflationary increases and merger.

The Audit Committee will consider how best to address and monitor these areas in 2021/22 and will update its work plan accordingly.

## 3. Audit Committee's opinions 2021/22

### 3.1. Adequacy and effectiveness of College's internal controls, risk management and governance arrangements

#### *(i) Corporate governance and internal control*

The Committee is satisfied that the Internal Audit reports received during the year inform the auditors' conclusion that the College has a sound framework of controls, which is sufficient to provide reasonable assurance regarding the effective and efficient achievement of its objectives. The quality of the Internal Audit work undertaken by TIAA has provided reassurance to the Committee and the Board in relation to the level of scrutiny being exercised on college activities. The Audit Committee is aware of its responsibility to oversee implementation of the recommendations and to ensure that Management is conscious of its responsibility to maintain internal control on an on-going basis.

The key elements of the College's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- Clear definitions of the responsibilities of, and the authority delegated to senior management
- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital, and cash flow budgets
- Regular reviews of key performance indicators and business risks and quarterly reviews of financial results involving variance reporting and updates of forecast outturns
- Clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Management
- Comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and the Finance & General Purposes Committee
- Professional Internal Audit team whose annual programme is approved by the Audit Committee, endorsed by the Board of Management. The Annual Internal Report of Internal

Audit, provides the Board of Management with an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

*(ii) Risk management*

The risk register and mitigating actions are discussed at all Audit and Board meetings. The College currently uses the standard UHI Risk Register format in compiling and presenting the register. A new Risk Policy was approved in December 2021 in response to an Internal Audit recommendation and the new policy clarifies the role of the Board of Management and its committees in the development and review of risk management. Board training for risk appetite and management is to be undertaken early in 2023. The review of risks encompasses business, operational, compliance, financial and reputational risks. All identified risks are evaluated using a common framework for scoring that considers both the likelihood and impact of risks becoming a reality. The Audit Committee will continue to consider risk management as a standing item in its meetings to ensure routine monitoring.

The Audit Committee receives regular reports from the College's Internal Auditor, which includes the Internal Auditor's independent opinion on the adequacy and effectiveness of the College's system of internal control and risk management, together with recommendations for improvement. The Audit Committee reviews and reports on the implementation of actions in response to recommendations for improvement made as part of the regular audit cycle and other investigations as required. Through the consideration of reports from the Internal Auditor and other investigations, the Audit Committee is assured that the College's system of internal control and risk management is currently effective and is able to report its reassurance to the Board for the year 2021/22.

3.2 Adequacy and effectiveness of arrangements for securing economy, efficiency, and effectiveness

The College's operations continue to be regularly monitored to maximise economy, efficiency and effectiveness in all its activities. The Committee is required to relay its view on the College's arrangements for achieving value for money to the Board in its annual report.

During the year to 31 July 2022 the College has continued to develop its joint procurement arrangements with APUC and UHI to achieve additional savings and value for money on College expenditure. No specific value for money assignments have been undertaken during the year.

In addition to the internal VFM considerations, economy, efficiency and effectiveness in the use of resources are considered as part of each audit undertaken by the College's Internal Auditor, with recommendations made as part of the individual audit reports as appropriate.

Efficiency and value for money continue to be promoted through both local level and College wide initiatives, such as in the areas of procurement, estate management, energy and sustainability and IT services.

The Committee has monitored the effectiveness of the College's financial controls, systems and management structures in place for promoting efficiency, effectiveness and economy in the use of public funds and other resources. The Committee has noted the continuing adoption of and improvement in financial procedures and management practices designed to support the achievement of value for money and institutional effectiveness. The Committee is satisfied that these arrangements are appropriate and effective.

3.3 View of the Audit Committee as to the Board of Management's discharge of its responsibilities

The Audit Committee is satisfied that the Board of Management has carried out its responsibilities in relation to the preparation of the Annual Accounts in a satisfactory manner, ensuring compliance with the terms of the Financial Memorandum between UHI Outer Hebrides - Innse Gall and the Scottish

Funding Council, and that the financial statements have been prepared on the basis of appropriate and accurate accounting records, giving a true and fair view of the financial affairs of the College at the relevant dates. The Committee is satisfied that these accounts have been prepared on the going concern basis and that they show that the funds allocated by SFC and income for specific purposes and from other restricted funds administered by the College have been applied only for the purpose for which they were received. The Audit Committee also confirms that the Board of Management has applied the principles contained in the Code of Good Governance for Scotland's Colleges.

### 3.4 View of the Audit Committee on whether the SFC Code of Audit Practice has been complied with and quality assurance of data returns

The Audit Committee is aware of the requirements of the SFC Code of Audit Practice and is satisfied that in all material aspects the Board of Management has complied with the Code.

The Audit Committee monitors the effectiveness of the College's management and quality assurance of data returns submitted through its programme of statutory Internal Audit.

## **4. Audit arrangements and auditor opinions**

### *4.1. Internal Audit*

#### *(i) Provider*

TIAA is the College's Internal Auditor. The current tender for Internal Audit services commenced in January 2018 for a three-year term, reappointed for a further two years. The Committee are currently recommending to the Board a further extension of the existing contract to cover the period from January 2023 – December 2023, in light of merger timelines.

The performance of the Internal Auditor is considered annually by the Committee.

The fees paid for Internal Audit work completed in the financial year 2021/22 is £13k.

#### *(ii) Internal Audit programme*

The Internal Audit programme provides independent and objective assurance on the College's operations to evaluate and improve the effectiveness of the College's internal control systems. A draft Internal Audit plan is developed around the College's objectives and assessment of its fundamental risks, as identified by the College's management and senior leadership team, and through discussion with Audit Committee.

The Internal Audit plan comprises a programme of statutory audits and operational audits. Please refer to Appendix 3 for the TIAA rolling audit programme for the duration of their contact with UHI Outer Hebrides – Innse Gall.

#### *(iii) Internal Audit reports and assurance ratings*

TIAA provide an assurance rating for each Internal Audit report, based on their assessment of the adequacy and effectiveness of the system of internal control. TIAA carried out seven reviews, which were designed to ascertain the extent to which the internal controls in the system are adequate to ensure that activities and procedures are operating to achieve UHI Outer Hebrides – Innse Gall's objectives. For each assurance review an assessment of the combined effectiveness of the controls in mitigating the key control risks was provided. The assurance ratings given are as follows:

Substantial	There is a sound system of internal control designed to achieve the College's objectives. The control processes tested are being consistently applied.
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Reasonable	While there is a basically sound system of internal control, there are weaknesses, which put some of the College's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the College's objectives at risk.
Limited	Weaknesses in the system of internal controls are such as to put the College's objectives at risk. The level of non-compliance puts the College's objectives at risk.
Nil	Control processes are generally weak leaving the processes / systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes / systems open to error or abuse.

Assurance Assessments	Number of Reviews	Previous Year
Substantial Assurance	5	4
Reasonable Assurance	2	3
Limited Assurance	0	0
No Assurance	0	0

Where recommendations are made as part of the Internal Audit process, TIAA classifies their recommendations as follows:

Urgent	Issues that are fundamental to the College, for the attention of senior management and the Audit Committee.
Important	Important issues to be addressed by management in their areas of responsibility.
Routine	Housekeeping issues or good practice suggestions.

Risk Area	Urgent	Important	Routine
<b>Directed</b>			
Governance Framework	0	1	4
Risk Mitigation	0	1	0
Compliance	0	3	1
<b>Delivery</b>			
Performance Monitoring	0	0	1
Financial Constraint	0	0	0
Resilience	0	1	0

*(iv) Audit Committee review of Internal Audit reports*

The Audit Committee is provided with access to all Internal Audit reports provided to each meeting of the Audit Committee. During 2021/22, the Committee has received and considered seven Internal Audit

reports. The final Internal Audit relating to Cyber security was not completed in time for a paper to be reported to the Audit Committee, however this was subsequently received, reviewed and approved by Committee Members via written procedures.

*(v) Internal Auditor opinion*

The annual report for the period August 2021 to 31 July 2022 was received by the Audit Committee at its meeting of 29 November 2022. Subject to the limitations of the work described in TIAA's report, the Internal Audit opinion given was as follows:

*TIAA is satisfied that, for the areas reviewed during the year, Lews Castle College has reasonable and effective risk management, control and governance processes in place. This opinion is based solely on the matters that came to the attention of TIAA during the course of the Internal Audit reviews carried out during the year and is not an opinion on all elements of the risk management, control and governance processes or the ongoing financial viability or your ability to meet financial obligations which must be obtained by Lews Castle College from its various sources of assurance.*

*(vi) Review of Assurances Received*

The Audit Committee accepts the Internal Auditor's opinion and agrees that the effectiveness of controls in some areas could be improved. In addition, work is ongoing to (1) improve implementation of outstanding actions arising from Internal Audit recommendations, (2) review and scrutinise risk, and (3) consider the impact and support needed for merger.

In the academic year 2022/23, further work will take place to identify potential mechanisms for improving accountability and delegations of authority across the College and to achieve greater visibility of controls operated at departmental level.

#### *4.2. External Audit*

*(i) External Audit provider*

Ernst & Young LLP concluded their last year of appointment for the financial year of 2021/22. As one of the incorporated College's within the UHI Partnership, External Audit appointments are made via Audit Scotland. For 2022/23, Deloitte have been appointment (As well as to North highland UHI, one of the merging partners). External Audit informs the Audit Committee on the operation of the internal financial controls reviewed as part of the annual audit.

The fees paid for work completed in the financial year 2021/22 are £32k.

*(iii) Details of non-audit services*

During 2021/22, the External Auditor did not carry out any non audit services therefore the Audit Committee did not have to consider risk to External Auditor's independence.

*(iv) External Auditor's annual report to the Audit Committee*

The Audit Committee received and considered Ernst & Young LLP's External Audit annual report 2021/22 at its meeting on 29 November 2022, alongside the audited annual accounts for the year. In fulfilling its oversight responsibilities, the Committee will review and discuss the audited financial statements and the related schedules in the Annual Report Senior Management, including a discussion of the quality, not just the acceptability, of the accounting principles; the reasonableness of significant judgments; and the clarity of disclosures in the financial statements.

The Audit Committee have also considered the External Audit Report on auditing and accounting matters, and have satisfied themselves with management responses to any recommendations made.

### **Conclusion**

My thanks go to members of the Committee, current and past, for their time and support during the 12-month period covering the report and look forward to undertaking the duties of the a appropriately



for the coming year, at such a critical time for the College in terms of the difficult operating environment as well as challenges and opportunities that will come from merger.

Jill Jones,  
*Chair of the Audit Committee, UHI Outer Hebrides- Innse Gall*