Public Audit Committee

20th Meeting, 2010 (Session 3),

Wednesday 24 November 2010

The role of boards – written evidence

Background

1. At its meeting on 27 October the Committee received a briefing on the Auditor General for Scotland’s report entitled The role of boards.

2. The Committee then agreed that it wished to take oral evidence from a panel of witnesses in connection with this report.

3. Attached in Annexe A is written evidence from one of those witnesses – Mr Ian Graham, the Principal of John Wheatley College. The evidence provided includes:

   - An extract of the College’s Best Value Review in respect of Financial/Academic Year 2009/10 which relates to its self evaluation of its Governance;

   - A briefing paper prepared by the College’s independent Clerk to the Board to inform a recent Strategic Dialogue Event with the Scottish Funding Council in respect of its Governance arrangements; and

   - An extract of the draft KPMG Audit Report (prepared for the Auditor General which will be included in the Board’s Annual Audit Report (which will be discussed at the College’s Board of Management at its next meeting which is scheduled for 6 December 2010)). The Auditor General for Scotland has not yet received a copy of this document.

4. Members are invited to consider the attached written evidence.
Sound Governance at a Strategic and Operational Level

The College utilises the Scottish Executive's 'On Board' methodology to confirm the quality of its governance arrangements. More recently it has benchmarked its Governance against the Standards for Public Sector promulgated by CIPFA and OPM (Office of Public Management). It used its Internal Auditors (Wylie & Bissett) to review annually the quality of its Governance in 2009/10. No high level recommendations for improvement have been made as a consequence of that process. A recent review of the quality of the College's governance which was conducted on behalf of the Scottish Executive by DTZ Pidea (as part of the Review of Scotland's Colleges) concluded that: 'John Wheatley College are at the leading edge of governance practice'.

The College also utilises the services of an independent Clerk to the Board (to ensure impartial advice and guidance for its Board). In addition Board Members are provided with a list of alternative sources of information which is updated on an annual basis.

It complies fully with the recommendations of the Nolan and Neil Committees and other guidance related to its Governance received from the Scottish Funding Council. This has led to further improvements in its appointment procedures for new Board members and to the appointment process which will apply to the appointment of the Principal/Chief Executive (when that is required to during academic year 2010/11). It has, as part of these improvements, appointed an External Scrutineer (who was the Chief Executive of a major Scottish Charity) to oversee the Board's Recruitment processes. Her report is in the Public Domain and confirms the fairness of the College's procedures and their application. The Principal does not participate in the selection of new Board Members. All members of the Board are offered an Induction to the College and their role. The Board has an annual Development Programme which addresses priorities identified by members.

The College's Board and its staff declare interests when appropriate. They also complete a Register of Interests (which is regularly reviewed and is available for scrutiny on the College's web-site) and they declare any gifts of material value.

In academic year 2008/09 the College first published a summary of the out-of-pocket expenses claimed by its Board and its senior staff. This process continued in respect of session 2009/10. These documents are, given recent public interest in such matters, in the Public Domain.

The College's Board of Management agrees, on an annual basis, the College's Service Development Plan and the associated budgetary arrangements. The Board receives regular appraisals of progress made against SMART (Specific, Measurable, Achievable, Relevant and Time-Bounded) targets and expenditure plans. Full cognizance is taken of risk and appropriate steps are taken to mitigate or eliminate this as part of a routine analysis of the College's operational environment (this is undertaken to standards required to address as far as is practicable for a Public Body the Combined Code which was published as a consequence of the recommendations of the Turnbull Report). The College accepts the need for continuous review and quality improvement of its standards of governance. It
has in place a Governance Action Plan (as part of the College’s Plan for session 2010/11) which sets out targets for further improvement.

Similarly it took part in an Audit Scotland Review of the Boards of Public Bodies in Scotland in 2009/10. It will respond appropriately to that document when it is published in 2010/11.

There are systematic reporting arrangements which enable the Board to consider progress against strategic and operational targets and to monitor the College’s financial performance against approved budgets. The Board also receives regular reports on the quality of the service provided for learners and sector-wide contextual information based primarily on the conclusion of Her Majesty’s Inspectors of Education (HMIle).

Members of the College’s Management Team are provided with annual targets. Their progress against these is assessed by an annual appraisal system (Board members are involved in the appraisal and career development review of both the Principal and Depute Principal).

Individuals not content with the quality or the standards of the College’s Governance have eventual recourse to the Standards’ Commissioner (when internal procedures have been exhausted).
John Wheatley College
The College’s Approach to Governance

General approach to governance
John Wheatley College:
- looks upon good governance as integral to all College activity, and not as something imposed from outside
- tries to keep up with (or lead) best practice in governance in the College sector
- learns lessons about best practice in governance from others – from other areas of the public sector and from the private and third sectors
- keeps an appropriate and considered separation between strategic (Board) matters and operational (Senior Management) matters

Keeping up with best practice
John Wheatley College tries to use best practice in governance to:
- consider, evaluate and manage risk in current and future activities
- provide a framework and guide for operational decision-making by senior management, and for strategic decision-making by the Board
- ensure full financial probity and accountability through thorough and clear financial reporting and audit
- maximise openness and transparency in all College activities

Ongoing review and self-evaluation
- Alternating between On Board and Good Governance Standard as framework for formal self-evaluation exercises
- Annual evaluation questionnaire to all Board members
- Annual Board Planning event
- Register of Interests and declaration of interests at meetings
- Enhanced disclosure

Training and development for Board members and managers
- Board development programme including governance refresher sessions
- New member induction programme
- Scotland’s Colleges Governance Programme
- Scotland’s Colleges Secretary to the Board CoP
- Involvement in new developments – Principal chaired CIPFA Good Governance in Scotland’s Colleges Working Group

Structured succession planning
- Board member recruitment and selection programme
- Co-opted members of Standing Committees
- Fellows of John Wheatley College to help preserve “institutional memory”
- Recruitment and selection of new Principal
- Exclusion of Principal and senior management from selection processes
Involvement of service users and stakeholders
- Formal stakeholder consultation programme
- Participation of senior managers in local networks and agencies
- Involvement of stakeholders in recruitment of new Principal
- Partnerships and liaison with local schools
- Student involvement and consultation

Involvement of external advisers, assessors and scrutineers
- External scrutineer for Board member recruitment exercise
- External assessor for new Principal recruitment
- Close relationships with Internal and External Auditors (including private meetings with Audit Committee), with detailed monitoring of audit recommendations
- *Alternative Sources of Information* guidance for Board Members
- External / independent Clerk to the Board

Recent improvements to governance
A few examples (from many) of recent improvements to governance:
- Mid-year detailed Board consideration of Risk Register (prompted by self-evaluation discussions at Audit Committee)
- Closer involvement of Standing Committee Chairs in agenda setting and order of business (prompted by discussions at governance refresher event)
- Re-ordering of business at meetings to ensure highest priority items are taken first (prompted by Standing Committee Chairs and comment in Audit Scotland report on *The Role of Boards*)

On the agenda for consideration

*General issues*
- New challenges to governance in an environment of shrinking resources and contraction
- Piloting implementation of the CIPFA *Good Governance in Scotland’s Colleges* report
- Taking account of messages from the Audit Scotland *Role of Boards* report
- Considering the relevance to the College Board of the new Financial reporting Council *UK Corporate Governance Code*
- Revision of *Schedule 2*

*Specific issues*
- Appointment of new Principal
- Recruitment of new Board members with appropriate skill mix
- Succession planning for Board Chair and Vice-Chair
- Student participation in the Board
- Board Member and Chair performance appraisal

Roger Stewart, Independent Clerk to the Board of Management
Alan Sherry, Assistant Principal / Secretary to the Board of Management
26 October 2010
Corporate governance

Governance and risk management

Introduction
Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Through the principal, the board of management is responsible for establishing arrangements for ensuring the proper conduct of College affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The Code requires auditors to review and report on corporate governance arrangements as they relate to:

- the Board of management’s reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and arrangements for the prevention and detection of corruption.

Framework
The board of management comprises 16 full members and three co-opted members with relevant skills and expertise in capital and building management and accounting and finance. There are seven standing committees, including executive, financial control, audit, personnel and staffing, capital and information and communications technology and academic and general purpose. Each committee is formally constituted and has its own formal terms of reference. This comprehensive governance structure, which includes non-executive, student and academic representation, is demonstrative of best practice and exceeds the minimum requirements of SFC. The committee structure provides the board of management with the mechanisms to ensure appropriate oversight and monitoring of financial and academic activities.

In line with best practice, the audit committee formally evaluated its performance during the year and identified a small number of areas for improvement, which have been subsequently taken forward.

The College's 2008-11 corporate strategy identifies the values that are core to its operations and sets the tone of the organisation from senior management. The focus has been on Public Value and the wider social benefits that the College brings to the local community in addition to its base goal of providing education services. The college plan to 2010-13 lays down the strategic and operational objectives of the College, which includes corporate government objectives for the 2010-11 financial year. The plan also includes a framework which outlines how the College might respond to reductions in its core budget.

The quality review completed by Her Majesty's Inspectorate of Education (HMIE) in November 2009 and published in February 2010 concluded that there was 'effective leadership and management at both the strategic and operational level'. The College expects to undergo an annual engagement exercise with members of HMIE in session 2010-11.
Audit Scotland conducted the Role of Boards study during the 2009-10 session, in which the College agreed to be a participant. The report commented that board of management meeting agenda were lengthy, and it was felt that the board would be unable to give so many items the appropriate level of attention. Management have informed us that members of the Board were content with the level of detail provided at meetings of the Board and its Standing Committees and this matter had previously been considered by members who considered that they would prefer to be 'over informed'. The Audit Scotland report also identifies two examples of good practice in relation to corporate governance at the College in respect of the processes it has in place for recruiting new members and conducting stakeholder engagement.

The board of management welcomed CIPFA's Good Governance in Scotland’s Colleges: A Framework, and has agreed to pilot this guidance in the 2010-11 session when its definitive form has been agreed.

Risk management
The College continues to adopt an approach to risk management based on guidance issued by the Chartered Institute of Public Finance and Accountancy ("CIPFA") for the further and higher education sectors in Scotland. The College’s risk management strategy is owned by the board of management and all its standing committees. The risk register is a standing item on the board of management meeting agenda and is updated at meetings if additional risks are identified.

The College’s risk management committee meets regularly to review the College’s response to identified risks. Reports are distributed to the senior management team which detail key performance indicators and possible control issues which may be identified by early warning mechanisms embedded within the operational units. Risks are identified, prioritised and assessed according to the likelihood and consequence; where there is no mitigating control in place measures are taken to address and mitigate the risk.

Regularity
The board of management considers all incoming correspondence relevant to its strategic management role from SFC and other regulatory or advisory bodies, including organisations such as Scotland’s Colleges and Audit Scotland. Relevant communication is also considered by the audit committee. This allows management to demonstrate the College’s approach to considering incoming guidance and taking action where appropriate. The Board’s audit committee also systematically reviews Audit Scotland’s technical bulletins to identify risks, issues and good practice.

Prevention and detection of fraud and irregularity
The College’s financial regulations detail measures put in place to prevent instances of fraud, including a whistle-blowing policy. The College has a fraud policy available to all employees on the intranet, as well as policies and procedures in individual financial and operational areas. The principal writes to all senior and operational managers annually reminding them of their duty to report fraud or mis-use of College resources. As a result of these returns management has not reported any material instances of fraud or irregularity during 2009-10.
Corporate governance

Governance and risk management (continued)

Internal audit

The approved internal audit programme for 2009-10 has been completed and the internal auditor’s reports have been reviewed. These indicate a strong control environment, with minimal recommendations arising. Management has continued to report action taken in response to internal audit recommendations to the audit committee and requested internal audit complete a review of previous reports to assess the implementation of recommendations. Of the 13 recommendations, 10 have been fully implemented, one partially implemented and two were outstanding but not beyond date.

Internal controls

In accordance with our audit plan, we have drawn on the work performed by internal audit and performed detailed testing of both entity level controls and finance controls. The testing performed by internal audit on the financial controls identified no failures of controls and therefore no significant recommendations have were noted in the internal audit reports. Testing of the design and operation of controls over significant risk points confirms that controls are designed appropriately and are operating effectively. We did note one minor weakness in the controls around the information technology systems.

When a member of staff leaves the College the human resources department will inform the information technology department, who will remove the person’s system access. The College does not complete an annual check to ensure that all members of staff with system access are still employees. Also differing levels of system access are granted to members of staff when the information technology department is informed by the various departments. There is no annual check to ensure that employees’ levels of systems access is appropriate. There is a risk that inappropriate access could be obtained by current or previous members of staff of the College. It is noted that management is currently implementing a new virtualisation and email system for staff and students. It is recommend that, as these systems are developed, and the information technology policies are updated that management consider developing a process to annually check employee system access, to ensure good practice.

Best Value / value for money

In accordance with the financial memorandum with SFC, the report of the board of management includes a comprehensive self-assessment of the College’s arrangements to achieve Best Value against the Scottish Government’s nine principles of Best Value. The Board uses this approach to evaluate its own effectiveness annually.

This includes extensive consultation with key partners, stakeholders, staff and its learners, which includes an annual public meeting. The Langland’s Report on quality standards for public services has been adopted to ensure high ethical standards and continually assesses the quality of its governance. Use of options appraisal is widely used by management, and was used to conclude a ‘do nothing’ option on the possible construction of a new sports facility.

The College has a wide variety of joint working arrangements in place, and further developed these in 2009-10 by developing its relationship with the East Glasgow Community Health and Care Partnership (CHCP) to secure primary care services. Assistance from the Carbon Trust was secured to develop a carbon management plan in line with its climate change action plan. The College holds various equal opportunities accreditations, and has been praised for its inclusive nature.

The College has a well developed model of shared services with Glasgow Life in relation to library services (for students and members of the public). These arrangements have improved the quality of the service, however they yield no financial savings.
### Action plan

#### Priority rating for recommendations

**Grade one** (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the College or systems under consideration. The weakness may therefore give rise to loss or error.

**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

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<th>No.</th>
<th>Issue and recommendation</th>
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<td>1</td>
<td>The College does not complete an annual check to ensure that all members of staff with system access are still employees and there is no annual check to ensure that employees' levels of systems access is appropriate. There is a risk that inappropriate access could be obtained by current or previous members of staff of the College. It is recommended that as new systems are developed management consider developing a process to annually check employee system access, to ensure good practice. (Grade three)</td>
<td>Recommendation accepted.</td>
<td>Associate Principal (ICT) and Human Resources Manager</td>
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