

AUDIT COMMITTEE

MINUTES OF MEETING OF 24 OCTOBER 2013

1500, Boardroom, Milton Road Campus

Present: D Rutherford (Chair); M Frizzell; R Stimpson

In attendance: P Davis; A Gray (Wyllie & Bisset); P MacPherson (Minutes); A Shaw (KPMG); A Williamson; G Gillespie (Wyllie & Bisset); D Watt (KPMG); C Brown (Scott-Moncrieff); I McKay

1 APOLOGIES

1.1 Apologies had been received from Nigel Paul and James Thomson (Scott Moncrieff).

2 DECLARATIONS OF POTENTIAL CONFLICT[S] OF INTEREST

2.1 There was none.

3 DETERMINATION OF OTHER COMPETENT BUSINESS

3.1 There was none. It was noted that anything arising would be noted during the meeting.

4 MINUTES OF PREVIOUS MEETING AND ACTION GRID

PAPER A

4.1 Members asked if the Funding Council had been invited to attend the Audit Committee. The Director of Finance confirmed that they had not been asked yet and the Committee Chair noted that he would prefer for them to attend a mid-term meeting.

Decision: The Director of Finance to invite the Funding Council to the next Audit Committee. If they are able to attend then the agenda will be sent out to them in advance of the meeting.

Decision: The Committee approved the minutes from the meeting of 14 May 2013.

- 4.2 The Director of Finance confirmed that action 6.1 is in the operational audit plan for 2013/14.
- 4.3 The Director of Finance confirmed that the APUC savings had been reported separately.

5 MANAGEMENT ACCOUNTS TO JULY 2013

PAPER B

- 5.1 The Director of Finance reported on the Management Accounts to July 2013 and noted that these figures were to an extent superseded by the year-end accounts. He confirmed that as there is a lot of finance work prior to the year-end this allows for an early closure of the accounts.

The College reported an operating surplus in the month 12 management accounts. The Director of Finance informed members of the current levels of income and expenditure. The surplus was close to the previous month's projected figure and highlighted that they had to account for the WSUM clawback and provisions movements.

The annual accounts indicated a surplus following some year-end adjustments.

6 EC ANNUAL REPORT AND ACCOUNTS 2012/13

PAPER C

- 6.1 The External Auditor presented the external audit report and advised that, although still a draft, it allows him to provide information to both the Board and Audit Scotland. He confirmed that Audit Scotland looks at performance management and governance. In the college environment Audit Scotland focuses on the financial status of the college but once regionalisation has taken place it will move towards a public sector type of model.

The External Auditor confirmed that the merger accounting was deemed appropriate and the report had been prepared as if Edinburgh College had always existed. The harmonization of accounting policies was now completed. They are currently recording a surplus and he noted that the College's accounts process had been particularly well managed.

- 6.2 The External Auditor reported on the detail of the report to the Audit Committee.

The audit started on the 16th September 2012 as agreed with management. Depreciation rates were aligned, the FRS17 pensions valuation agreed, and it was agreed that the residence provision should be reduced.

The External Auditor noted that due to the merger there is an increased risk of the College being liable for corporation tax. He advised that this risk should be considered by management.

- 6.2.1 The Chair queried the term 'no trifling' errors on p.13 and suggested replacing this with 'no unadjusted' errors. The Internal Auditor confirmed that trifling is used in the standard.
- 6.2.2 The Director of Finance confirmed that a review into corporation tax will be undertaken.
- 6.2.3 The Director of Finance confirmed that he planned to have journal controls implemented for the end of the month, this will depend on a level of materiality.

It was also agreed that component accounting related to fixed assets should be undertaken.

- 6.3 The Director of Finance confirmed that the draft summary for Paper C had been incorrectly placed under Paper B. He confirmed that the income for this year was down from 2011/12 and this was primarily due to Government funding cuts and a reduction in International & Commercial income. The College had also picked up an exceptional charge for merger related costs.
- 6.4 The External Auditor confirmed that they are still to complete some narrative disclosures but that this would not substantially change the report.
- 6.5 The Chair had received comments from Committee Members and it was agreed that the report will incorporate:
 - 6.5.1 More specific reference to the financial report within the Chairman's statement.
 - 6.5.2 Reference to the Academic Council.
 - 6.5.3 The policy statement on merger accounting to refer to Note 32.
 - 6.5.4 The Director of Finance to check if the Scottish Funding Council have a code of audit practice as this is referred to in the second last paragraph on p.13, if not this will be deleted.
- 6.6 The Director of Finance confirmed that the accounts will be updated before the full Board meeting in November. The final version will then be presented to the Board.

7 KPMG ANNUAL REPORT 2012/13 AND BOARD OF GOVERNORS REPRESENTATION LETTER

PAPER D

- 7.1 The External Auditor advised the Committee that it is a standard representation letter and asked for the Chair and the Principal to sign off the report.
- 7.2 Members agreed that it would be useful for the Audit Committee to receive assurance from the Director of Finance that there are fraud checks in place. The Director of Finance provided assurances and also confirmed that the

Wylie & Bisset fraud checklist is currently being followed with a view to providing an updated fraud and corruption policy. The External Auditor confirmed that they also review this aspect as part of their audit.

- 7.3 The Chair confirmed that the Audit Committee would discuss items 8-16 and then ask for College staff to leave the meeting so that the Committee could discuss overall corporate governance with the auditors.

8 INTERNAL AUDITORS ANNUAL REPORT 2012/13 PAPER E

8.1 The Internal Auditor presented the internal auditors annual report to the Audit Committee. He advised that although Edinburgh College had 15 recommendations this was not a bad performance especially after the merger.

8.2 The Internal Auditor advised that due to the outstanding SUMs (FES) audit, the report will need to be updated.

8.3 The Committee Chair noted that he was happy that the College is resolving corporate governance issues.

8.4 The Chair requested further detail on financial controls.

8.4.1 The Internal Auditor confirmed that it would be covered later in the papers.

9 INTERNAL AUDIT REPORT – COMPLAINT HANDLING PAPER F

9.1 The Internal Auditor presented the internal auditors complaint handling report to the Audit Committee and recommendations.

9.2 The Internal Auditor confirmed that there were 3 recommendations (one Low and two Medium).

9.3 The Director of Finance noted that an update had been provided on the back of the cover sheet.

9.4 The Committee Chair confirmed that it was good to see areas of good practice on p.5

10 INTERNAL AUDIT REPORT – CORPORATE GOVERNANCE PAPER G

10.1 The Internal Auditor presented the internal auditors corporate governance report to the Audit Committee and recommendations.

He noted that all issues were procedural. All merger risks have been taken forward and all have received proper responses from the College.

10.2 The Committee Chair confirmed that the updated financial regulations will be presented at the next Audit Committee meeting.

10.3 The Director of Finance confirmed that he will complete the fraud and corruption document within the next few weeks.

11 INTERNAL AUDIT REPORT – PAYROLL SYSTEM PAPER H

11.1 The Internal Auditor presented the payroll system report to the Audit Committee and recommendations. He highlighted the security issue because it was a high priority recommendation. However, he confirmed that this had already been dealt with.

11.2 The Committee Chair asked about the situation with the employee owing money to the College. The Director of Finance confirmed that this had been an overpayment.

12 INTERNAL AUDIT REPORT – DUE DILIGENCE PAPER I

12.1 The Internal Auditor presented the due diligence report to the Audit Committee and recommendations. He highlighted section 3 of the report and noted that the College had proceeded to implement the recommendations.

He had a slight concern regarding data protection. The Director of Finance confirmed that all points including the data protection issue had been dealt with.

12.2 The Chair confirmed that due diligence was conducted by an external body before the merger and noted that it was good that the College had dealt with these issues.

13 INTERNAL AUDIT REPORT – NEW FINANCE SYSTEM PAPER J

13.1 The Internal Auditor presented the internal auditors new finance system report to the Audit Committee. He noted that the paper on controls was approved at a previous Board meeting. He confirmed that the external audit had not thrown up any major discrepancies which showed that the new system worked.

13.2 The Director of Finance stated that he had requested the new finance system audit. He confirmed that he already had a review of financial balances in place for next year. Further financial analysis will be audited by Scott Moncrieff in 2013/14 per operational audit plan.

13.2.1 The Chair confirmed that the Audit Committee will consider Scott Moncrieff's report in January.

14 **INTERNAL AUDIT REPORT – SUMS AUDIT 2012/13 & STUDENT SUPPORT** **PAPER K**

14.1 The Internal Auditor gave a verbal update and confirmed that he was still waiting on SUMs information. He noted that the SUMs audit in 2012/13 was more of a concern as there is a slight issue regarding DPG18 provision of SUMs associated with personal learning support plans.

He advised that they had taken an initial sample of 10 students per site at the College but they had received back too many errors even when they increased their sample to 15 per site. They have now requested another 40 samples.

14.2 The Director of Finance confirmed that a number of the learning plans are with placement organisations (i.e. schools) and this presents a challenge in collecting the information. He has contacted the Vice Principal for Educational Leadership to help collect the rest of the samples.

14.3 The Internal Auditor confirmed that if there was a reduction in SUMs then this could give rise to a clawback from the Funding Council. He is currently extending the sample as he needs more reassurance in this area. He will report back to the Audit Committee once he has his findings.

14.4 The Director of Finance confirmed that internal documents might have been moved due to staff relocating to different campuses. He confirmed that they are working hard to collect this data.

14.5 The Internal Auditor confirmed that he will contact the Director of Finance if any issues arise.

The Committee Chair requested that the Committee move to item 24 on the agenda.

15 **WSUMS CLAW-BACK OVERVIEW** **PAPER T**

15.1 The Director of Finance confirmed that the College underachieved SUMs and on the 1st August the SFC intimated that this resulted in a claw-back. The Director of Finance and the Principal met with the SFC and they gave the College dispensation equating to an overall claw-back shortfall. He advised that the Head of Quality & Equalities had investigated the underachievement at Granton and found that it was an effect of the historical planning, the merger process and the reduction in management.

The problem was caused when the College did not achieve target student numbers.

15.2 The Internal Auditor confirmed that other colleges were experiencing similar issues.

The Director of Finance and Minute Clerk left the meeting at this point for five minutes whilst the Chair had time to speak to the auditors in private.

18.4 The Chair advised that there was nothing of note for the Director of Finance to be concerned about.

19 RISK MANAGEMENT GROUP UPDATE PAPER N

19.1 The Director of Finance confirmed that this report was a slight extension to the risk management report that went to the last Board meeting. He noted that the scoring had been put together by particular functional areas and that this will be discussed at the January risk management group meeting. He advised that there is an action plan for the top risk on “industrial action” and added that the top risk from last year has been carried forward as on-going (SUMs activity) until completed.

The Director of Finance added that an emerging risk is the ONS re-classification as this has financial implications for the College.

The Director of Finance confirmed that two emerging risks relate to zero hour contracts and student enrolments.

The Committee Chair confirmed that a paper on risk appetite will be presented at the next Audit Committee meeting.

20 FEES FOR EXTERNAL AUDITORS PAPER O

Decision: The Committee approved the fees for the external auditors.

21 FINAL 2013-2014 BUDGET PAPER P

21.1 The Director of Finance confirmed that this paper had already been presented to the Board and there had been no change since Board approval.

22 INSURANCE LIABILITIES COVER PAPER Q

22.1 The Director of Finance confirmed that following discussions with Zurich the governors’ liability insurance had been increased.

23 FINANCE FORECAST RETURN TO THE SFC PAPER R

23.1 The Committee Chair advised that he had difficulty with this document as he couldn’t see how the numbers tied in. The Director of Finance confirmed that they had pro-rated the annual budget for 2014/15 and this was in line with the SFC requirements.

24 **ONS RECLASSIFICATION UPDATE** **PAPER S**

24.1 The Director of Finance confirmed that the papers were information that the College had received concerning ONS.

Members asked if the Trust was at an advanced stage. The Clerk confirmed that two trustees had been formally identified.

The Director of Finance confirmed that with two trustees in place the Development Trust application can be submitted to OSCR and HMRC.

Members asked how comfortable the relationship was between the Development Trust and the College.

The External Auditor confirmed that the auditors would need to provide an overview with regards any dominant influence.

The Chair noted that the Board will need to make the decision to hand over the College's money to the Development Trust particularly related to associated risks.

24.2 The Internal Auditor raised a concern that the SFC were not engaging with auditors. The Chair confirmed that he will take this issue to the SFC.

25 **ANNUAL REPORT ON COMPLAINTS** **PAPER U**

25.1 The Chair asked for the definition of customer to be explained. The Director of Finance to confirm with the Head of Quality and Equalities. The paper will be reviewed at the next Audit Committee.

26 **ECSA ACCOUNTS** **PAPER V**

26.1 The Director of Finance noted that the finance department helped ECSA to produce these figures.

The Chair confirmed that over the next 2-3 months the Students' Association will bring forward proposals on its funding status when the additional stipend runs out next June. This may come up at the next Board meeting.

27 **AOCB**

27.1 The Chair noted that this was the last meeting that the Internal Auditor would be serving on and thanked both the Internal Auditor and his staff for the internal audit work that they have done for the College.

27.2 The Committee Chair thanked the auditors.

27.3 The Clerk to review committee structures and governance procedures with the Audit Committee's professional advisors over the next year.

28 **DATE OF NEXT MEETING**

The next meeting will take place on **22 January 2014** at 16.00 at Milton Road Campus.

The meeting closed at 1800 hrs