

AUDIT & RISK ASSURANCE COMMITTEE

MINUTES OF MEETING HELD ON 05 MARCH 2015

16:30, Boardroom, Milton Road

Present: N McKenzie; N Paul (Committee Chair); R Stimpson

In attendance: H Harvie (KPMG); I McKay; E McMahon; J Thomson (Scott-Moncrieff);
M Walker (Clerk); A Williamson.

1 WELCOME & APOLOGIES

- 1.1 The Committee NOTED that Nigel Paul would act as Committee Chair until the Board's sub-committee membership had been agreed on 24 March 2015.
- 1.2 The Committee Chair welcomed Niki McKenzie to the Committee, following her appointment to the Board.
- 1.3 On behalf of the Committee, the Committee Chair thanked former Board members, David Rutherford and Moira Frizzell, for their service as members of the Audit & Risk Assurance Committee.
- 1.4 The Committee Chair welcomed external auditor, Hugh Harvie (KPMG) to the Committee.

2 DECLARATIONS OF INTEREST

- 2.1 None.

3 MINUTES OF PREVIOUS MEETING

- 3.1 The Committee APPROVED the minutes from the meeting of 27 November 2014.

4 MATTERS ARISING

- 4.1 All actions from the previous meeting were either complete or on the agenda, with the exception of the following:

4.1.1 TERMS OF REFERENCE (minutes 5.5/27.11.14 refers)

The Internal Auditor confirmed that the Committee's Terms of Reference would be considered against the Scottish Government's Audit Handbook as soon as possible, and any feedback would be provided to the Governance Advisor.

5 FINANCIAL REGULATIONS

- 5.1 The Committee NOTED the Financial Regulation 2015, as presented by the Director of Finance.
- 5.2 The Committee NOTED that since the approval of the Regulation in January 2014, there had been a number of substantial changes in-relation to the ONS Reclassification and the Financial Memorandum. The main areas of change associated with the Financial Memorandum included; revised delegated limits, severance payments, cash management, capital investment and borrowing.
- 5.3 The Committee NOTED that the Committee Chair had provided initial comments to the Director of Finance on delegated limits, intellectual property rights and procurement legislation outwith the Committee meeting. The Committee DISCUSSED delegated limits as agreed by the Commercial & International Committee, and were content with the details outlined.
- 5.4 *Paragraph 5.4 presently exempt from publication under the Freedom of Information (Scotland) Act 2002, Section 30, Prejudice to the Effective Conduct of Public Affairs.*
- 5.5 The Committee AGREED that the College's auditors would be given an opportunity to consider the Financial Regulations further and feedback to the Director of Finance. The Committee AGREED that a finalised version of the Regulations incorporating all requested amendments would be circulated electronically to the Committee prior to the March meeting of the Board, for approval.

6 FINANCIAL UPDATE

- 6.1 MANAGEMENT ACCOUNTS TO JANUARY 2015
 - 6.1.1 The Committee NOTED the financial performance of the College, as highlighted in the Financial Accounts to January 2015.
 - 6.1.2 The Committee DISCUSSED mid-year forecasting and the on-going efforts to improve WSUM activity in semester two. The Director of Finance highlighted a number of developments following the extensive curriculum review to improve student conversion rates.
 - 6.1.3 The Committee NOTED that the Director of Finance was fairly confident that the forecast academic year-end financial projections would be met, subject to the mid-year review being in line with current expectations.

The Chair, Ian McKay, entered the meeting

6.2 NET DEPRECIATION

- 6.2.1 The Committee NOTED that the SFC had proposed a solution to the shortfall in student support funding, to allow colleges to use the 'net depreciation' cash for this purpose, and allow colleges to spend the cash to meet specific funding challenges.
- 6.2.2 The Director of Finance provided the Committee with an overview of the impact of net depreciation on the College's funds over the next four academic and financial years. The Committee NOTED the adverse impact on the College's Income and Expenditure Account and associated Net Current Assets and Reserves.
- 6.2.3 The Committee DISCUSSED the implications of net depreciation for the College and the sector. Members focussed on the recent emergence of net depreciation over the past two months, and the financial projection of a significant 'fundamental loss'.
- 6.2.4 The Committee NOTED the External Auditor's comments on feedback from the college sector, and informed Members of recent claw-backs in other areas of the public sector. Members NOTED that a significant financial loss to the College, through net depreciation, and a reoccurring operating deficit would be of concern in the end of year audit, however according to the SFC it would not be indicative of financial instability.
- 6.2.5 The Committee NOTED an alternative solution, whereby the age limit for EMA could be extended from 18 to 20, allowing students aged 19 or 20 to be paid from the EMA funds, rather than from the bursary funds. The Committee DISCUSSED the impact of such changes on individual student, and Members AGREED that the Director of Finance would provide a more detailed report on this matter to aid future discussions.
- 6.2.6 The Committee NOTED an '*ONS Reclassification Briefing Note on Change of Accounting Year End*' as published by Colleges Scotland. The Director of Finance informed the Committee that (to date) this publication had been the only formal information circulated to colleges on net depreciation.
- 6.2.7 The Committee AGREED that the SFC should be asked to further formalise the use of net depreciation to cover the shortfall in student support funding. Additionally, Members AGREED that the following concerns of the Committee should be communicated to the SFC:
- (i) the financial pressures that the proposed use of net depreciation would place on the college sector over future years;

- (ii) the adverse impact of net depreciation on Edinburgh College, based on the Director of Finance's forecasting;
- (iii) the use of EMA funds to cover bursary students, with the potential for a shortfall in funding to have a direct financial impact on students.

6.3 CASH SAVINGS UPDATE

6.3.1 The Committee NOTED a report on *'Forecast Saving and Cashflow Timing'* from 2014-16. The Director of Finance highlighted cash savings currently identified in order to address the 2014/15 budget deficit, with the aim of the College achieving a breakeven budget position in 2015/16. Members NOTED that there remained risks with regards to the full release of energy and exam fees savings.

6.4 SFC EFFICIENT GOVERNMENT RETURN

6.4.1 The Committee NOTED the summarised efficiencies delivered by Edinburgh College for 2013-14, as part of the Efficient Government Initiative Return.

7 MONITORING OUR PERFORMANCE

- 7.1 The Committee NOTED the status of Key Performance Indicators related to financial perspectives, as of February 2015.
- 7.2 The Committee NOTED that the College remained behind expectations in meeting its operating breakeven position by July 2016 and reducing its cost base. The Director of Finance informed the Committee that good progress had been made in these areas and the Executive were confident of achieving the set financial objectives for the 2015/16 budget.

8 RISK MANAGEMENT UPDATE

- 8.1 The Committee NOTED an update on the Top Risk Register to December 2014.
- 8.2 Members NOTED that TR13 (failure of connectivity to internet or between campuses) remained an active risk, and in order prevent a risk occurrence, a series of actions had been incorporated into current infrastructure projects.
- 8.3 The Committee AGREED that, in light of discussions at December's Board meeting (*BoM minute 9.2.2/10.12.14 refers*), the Top Risk Register 'Change Indicator' RAG should be altered to indicate severity of risk. The Committee Chair requested that arrows were used on the Top Risk Register to illustrate any change in risk.
- 8.4 *Paragraph 8.4 presently exempt from publication under the Freedom of Information (Scotland) Act 2002, Section 30, Prejudice to the Effective Conduct of Public Affairs.*

- 8.5 The Committee DISCUSSED the amalgamation of the Top Risk Register and the Development Plan Risk Register. The Committee AGREED that its long-term aims should be to:
- (i) draw together elements of both risk registers, and create stronger links between the risk registers, management accounts and MOP information;
 - (ii) place greater emphasis on the assurance of risk, and its appropriate management.

9 INTERNAL AUDIT

9.1 INTERNAL AUDIT PROGRESS REPORT

- 9.1.1 The Committee NOTED a report on the internal audit work conducted by Scott-Moncrieff to 24 February 2015.
- 9.1.2 The Committee DISCUSSED the 'Best Value' audit, for which a focus had not yet been agreed by the College. The Committee AGREED that the internal auditors should liaise with the Interim Principal (and the newly appointed Principal) to determine the focus and timing of the audit, in order to maximise its usefulness to the College.

9.2 USE OF STUDENT ACTIVITY DATA

- 9.2.1 The Committee NOTED the findings of an internal audit report which reviewed the utilisation of student activity data to inform the College's strategic and curriculum planning, and to monitor the delivery of student numbers targets.
- 9.2.2 The Committee NOTED how the College's failure to address the 2013/14 WSUMs performance had adversely affected performance in 2014/15, due to overreliance on individual centres to counter under-delivery in other areas. The Committee also NOTED that the matrices used to support Curriculum Review in some instances lacked consistency.
- 9.2.3 The Interim Principal informed the Committee of the work undertaken by the Vice Principal, Educational Leadership, to resolve matters arising in the auditor's report. The Committee NOTED that in the context of 2014/15, the College had already surpassed the target achieved in 2013/14.
- 9.2.4 The Committee AGREED that the audit report provided useful and timely information, and should be presented to the Board for noting.
- 9.2.5 The Committee DISCUSSED how best to seek assurances that an improved process would be implemented in 2015/16 to efficiently meet student activity targets. The Committee AGREED that a report would be provided to the Board in May, clarifying the WSUM position, and

the monitoring processes in-place. The Committee also AGREED that a further report would be reviewed by its Members, to provide the Committee with assurances that an effective system had been implemented.

9.3 SUMMARY OF AUDIT RECOMMENDATIONS

9.3.1 The Committee NOTED the current status of internal audit recommendations from 2011/12, 2012/13 and 2013/14, as previously reviewed by the Audit & Risk Assurance Committee.

9.3.2 The Committee NOTED reports from the Head of IT and the Director of OD & Communications, in-relation to outstanding audit recommendations from 2011-12. The Committee NOTED a request from the Head of IT for additional resources to progress outstanding recommendations. The Committee Chair asked the Executive Team to consider this matter further.

10 REPORTING TO BOARD

10.1 The Committee AGREED that the following matters would be reported at the next meeting of the Board on 24 March 2015:

- (i) the Financial Regulations, as agreed by the Committee, would be provided to the Board for approval;
- (ii) the adverse impact of net depreciation on the College and the sector, as highlighted under item 6;
- (iii) the '*Use of Student Activity Data*' audit report would be provided to the Board, for information.

11 ANY OTHER COMPETENT BUSINESS

None.

12 DATE OF NEXT MEETING

The next meeting will take place on Thursday, 25 June 2015 at 1600 in the Boardroom, Milton Road Campus.

13 CLOSED BUSINESS

No closed items of business were considered.

The meeting closed at 18:30