

AUDIT COMMITTEE

MINUTES OF MEETING OF 02 APRIL 2014

1600, Boardroom, Milton Road Campus

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

In attendance: C Brown (Scott-Moncrieff); M Exley; M Fairbairn (SFC) I McKay; J Thomson (Scott Moncrieff); D Watt (KPMG); M Walker (Clerk); A Williamson.

1 WELCOME AND APOLOGIES

1.1 No apologies were received.

1.2 The Committee Chair welcomed SFC Senior Director (Institutions and Corporate Services), Martin Fairbairn to the meeting.

2 DECLARATIONS OF POTENTIAL CONFLICT[S] OF INTEREST

2.1 None.

3 DETERMINATION OF OTHER COMPETENT BUSINESS

3.1 There was one item of other competent business, as noted under Item 16.

4 MINUTES OF PREVIOUS MEETING

4.1 The Committee APPROVED the minutes from the meeting of 22 January 2014.

5 MATTERS ARISING

5.1 Actions from the previous meeting were either complete, overtaken or on the agenda, with the exception of the following item:

5.1.1 ANTI-FRAUD AND CORRUPTION POLICY (minute 12.1/ 22.01.14 refers)

Paragraph 5.1.1 presently exempt from publication under the Freedom of Information (Scotland) Act 2002, Section 30, Prejudice to the Effective Conduct of Public Affairs.

6 MANAGEMENT ACCOUNTS - 7 MONTHS TO FEBRUARY 2014

- 6.1 The Committee NOTED the Management Accounts to February 2014. The Director of Finance informed Members that projected income was £300k less than expected, although it was confirmed that new business had been attracted over the defined period.

Members NOTED that cash flow was carefully monitored and managed for future working capital purposes, and to maintain a steady cash flow. The Director of Finance notified Members of the current uncertainties around the impact on net cash flows of the ONS reclassification.

- 6.2 Members DISCUSSED the benefits of linking KPIs to new contracts and tenders - for monitoring purposes. The Committee AGREED that high-level information pertaining to new contracts and tenders (in excess of £500k) should be included in future Management Accounts.
- 6.3 The Chair invited the SFC Senior Director to comment on any sector wide funding trends and areas of potential policy change. The SFC Senior Director informed the Committee that funding had narrowed the focus of colleges, which in-turn had reduced movement across the sector.

The SFC Senior Director also commented on the resurgence of interest in lifelong learning and indicated that this could be a future area of change for the sector.

7 FINANCIAL STRATEGY 2013-18

- 7.1 Members NOTED the Financial Strategy 2013-18, which included a draft summary budget for 2014/15. The Director of Finance provided an overview of the Strategy - highlighting the following;

- strategic objectives;
- the current financial situation and future aims;
- key weaknesses and risks within the Income & Expenditure budget and Balance Sheet;
- plans for financial sustainability (over the next 5 years);
- performance measures and timescales.

- 7.2 Members DISCUSSED the Financial Strategy's limited references to the College's interactions with the Development Trust. Members NOTED that the finalised relationship between the College and Trust was under consideration, with both Chairs scheduled to meet on 24 April 2014.

Committee Members acknowledged that the College and Trust were two separate organisations following the same pathway. The Principal informed Members that the Trust's position was one of 'additionality', rather than subsidy, to support those wishing to learn at the College.

- 7.3 Members APPROVED the Financial Strategy 2013-18, with the addition of a two further points to be included by the Director of Finance;

- i) A statement of the College's non-profit status;

- ii) Further clarity over the movement of funds between the College and the Trust. For instance, the transfer of funds acquired through the College's commercial activities to the Trust.

8 RISK MANAGEMENT UPDATE

- 8.1 The Committee NOTED an update on the 2013/14 Top Risk Register.

Paragraph presently exempt from publication under the Freedom of Information (Scotland) Act 2002, Section 30, Prejudice to the Effective Conduct of Public Affairs.

- 8.2 Members NOTED that the Risk Appetite paper was currently been circulated for consideration and feedback to all the committees of the Board. The Committee AGREED that collated feedback would be presented to the next Audit Committee meeting.

9 TUITION FEES & FEE WAIVER POLICIES

- 9.1 Members APPROVED both the Tuition Fees and Fee Waiver policies for 2014/15. The Committee recognised the market sensitivity of tuition fees associated with international and commercial activities, and acknowledged that alignment with the indicative rounded uplift of 2% applied to all fees may not always be appropriate.

10 FRS18 ACCOUNTING POLICY

- 10.1 Members APPROVED the FRS18 Accounting Policy presented by the Director of Finance, which included the College's Financial Reporting Standards and the Principle Accounting Policies.

11 EFFICIENT GOVERNMENT RETURN

- 11.1 Members NOTED the summarised efficiencies delivered by Edinburgh College for 2012-13, as part of the Efficient Government Initiative. The Committee were satisfied with the detailed efficiencies and AGREED that the Principal (as Accountable Officer) should sign-off the return.
- 11.2 The Committee DISCUSSED the potential for including 'negative efficiencies', to highlight the inefficiencies caused by major changes within the college sector.
- 11.3 Members DISCUSSED the genesis of the initiative and how Colleges Scotland could utilise the information provided from across the sector to make a case for colleges. Members AGREED that the College should propose to Colleges Scotland that a sector wide efficiencies return be presented in this manner.

12 INTERNAL AUDIT

12.1 FINANCIAL SYSTEMS HEALTH CHECK

12.1.1 Members NOTED the range of good practice identified in the Financial Systems Health Check Report, and the two areas for improvement highlighted, which included;

- i) the timely raising of sales invoices for all income generating activities;
- ii) the accountability of budget holders, and the opportunity for budget holder to feed into the budget setting process.

12.1.2 Members NOTED that the Director of Finance planned to address both recommendations through on-going staff training and support.

12.1.3 The Chair asked the Internal Auditors about the sliding scale system for assessing 'control objectives'. The Auditors responded by indicating that the assessment of control objectives was subjective, and therefore must be viewed as a dialogue between auditors and the College's senior management.

12.2 STRATEGIC AND OPERATIONAL PLANNING

12.2.1 Members NOTED the Strategic and Operational Planning Report and acknowledged the short timescale in which the College had established robust and effective processes.

12.3 BUSINESS CONTINUITY PLANNING AND DISASTER RECOVERY

12.3.1 Members NOTED the formative guidance provided within the Business Continuity Planning and Disaster Recovery Report.

12.3.2 The Director of Finance confirmed that the report highlighted key consideration that would be included in the developed Business Continuity Planning and Disaster Recovery systems.

12.4 SUMMARY OF AUDIT RECOMMENDATIONS

12.3.1 Members NOTED the current status of internal audit recommendations from 2011/12, 2012/13 and 2013/14, as previously reviewed by the Audit Committee.

13 EXTERNAL AUDIT STRATEGY AND PLAN OVERVIEW

13.1 Members NOTED the External Audit Strategy and Plan, which focussed on the following areas;

- Financial position;
- Significant risk;
- Fraud risk;
- Pension valuation;

- Residences provision;
- Income recognition;
- Charitable foundation;
- Internal audit;
- Regularity and propriety.

13.2 Members AGREED that the timescales outlined in the External Audit Plan were appropriate.

14 MONITORING OUR PERFORMANCE

14.1 Members NOTED the status of Key Performance Indicators related to audit and financial matters, as of March 2014.

14.2 The Director of Finance informed Members that in-relation to 'Ref 1' further savings had been identified in order to remain within the 2013/14 budget deficit.

Members DISCUSSED the term 'financial sustainable' as presented in the KPI objective, and whether this accurately reflected the current College position. The Director of Finance indicated that Monitoring Our Performance information only related to the current financial year.

14.3 Members NOTED that KPI 'Ref 4' regarding fund development and investment may move from 'amber' to 'red' (substantially behind track) if levels of funding were reduced.

15 COLLEGE GOVERNANCE CODE UPDATE

15.1 Members NOTED an update on the College Governance Code's on-going development and the expected timescale for publication. The Clerk confirmed that the Code would go forward to the Scottish Government in May 2014, prior to publication before the end of the academic year.

16 AOCB

16.1 QUESTIONS TO THE SFC SENIOR DIRECTOR

16.1.1 With reference to minute 5.2.1 from the Audit Committee on 22 January 2014, the SFC Senior Director provided responses to the questions of Committee Members.

16.1.2 Members NOTED that the appointment of the SFC CEO was nearing a conclusion. The SFC Senior Director indicated that no significant changes in strategy following the appointment were foreseen.

16.1.3 Members NOTED that the change from WSUMs to Credits aimed to provide a simplified system, which would connect with stakeholders understanding.

16.1.4 The SFC Senior Director DISCUSSED with Members the current issues affecting the college sector, these included;

- (i) political interests in college mergers, and the financial, structural and curricular impact;
- (ii) carbon reductions and environmental issues;
- (iii) the efficiency of colleges, within the context of the reform agenda and financial constrictions.

Members welcomed the SFC Senior Director's emphasis on important curricular issues, as well as key financial matters.

16.1.5 The Committee Chair thanked the SFC Senior Director for attending the Audit Committee and engaging in the various topics of discussion.

17 **DATE OF NEXT MEETING**

The next meeting will take place on Friday, 20 June 2014 at 14.00 at Milton Road Campus.

The meeting closed at 18:15