



For the future you want

## **AUDIT & RISK ASSURANCE COMMITTEE**

### **MINUTES OF MEETING OF 02 JUNE 2016**

**16:00, Boardroom, Milton Road**

**Present:** I Doig; N McKenzie; N Paul (Committee Chair); F Riddoch.

**In attendance:** A Bruton; C Brown (Scott-Moncrieff); P Davis; H Harvie (KPMG); I McKay; M Swann (KPMG); James Thomson (Scott-Moncrieff); M Walker (Clerk); A Williamson.

#### **1 WELCOME & APOLOGIES**

1.1 No apologies were received.

#### **2 DECLARATIONS OF INTEREST**

2.1 None.

#### **3 MINUTES OF PREVIOUS MEETING**

3.1 The Committee APPROVED the minutes from the meeting of 14 April 2016.

#### **4 MATTERS ARISING**

4.1 All actions from the previous meeting were either complete or on the agenda.

#### **5 FINANCIAL REPORT**

##### **5.1 BUSINESS TRANSFORMATION PLAN UPDATE**

5.1.1 The Committee NOTED that the Policy & Resources Committee had approved a revised version of the Business Transformation Plan, which had subsequently been submitted to the SFC on 06 May. The Committee

NOTED a letter from the SFC Chief Executive, Laurence Howells, to the Principal in response to the submitted transformation plan (received 19 May). The Chief Operating Officer advised the Committee that the letter clarified the SFC's expectation on the implementation of the plan and the proposed process of dealing with the associated funding request by the College.

5.1.2 The Committee DISCUSSED the following aspects of the SFC's letter:

- (i) The contingency cash fund to be provided by the SFC as an advance for use in AY 2016/17 to alleviate cash flow pressures;
- (ii) the proposed review of the transformation plan to be undertaken by Scott-Moncrieff (the College's internal auditors), and the timeframe and scoping of such a review;
- (iii) progress on the transformation plan's gateway style review, and the need to avoid duplication with the review conducted by the internal auditors.

5.1.3 The Committee AGREED that the Chief Operating Officer should keep the external auditors informed of any further developments with the SFC.

## 5.2 FUNDING ALLOCATION – 2016/17 OUTCOME AGREEMENT

5.2.1 The Committee NOTED that on 09 May the College had received confirmation of its SFC allocation for 2016/17, as per the outcome agreement. The Chief Operating Officer informed the Committee that the financial effect on the College would be a reduction in funding of £3.2m, which included ESF and Capital funds but excluded student support related funds.

5.2.2 The Committee DISCUSSED the following impact of the funding reduction, including:

- (i) the sector's surprise at the reduction in capital maintenance grant;
- (ii) the key risks to the College, which included potential delays to proposed academic changes;
- (iii) recognition in Scottish Government that capital within the College sector was underfunded, and the potential for the sector to increase its annual capital funding bid in the future;
- (iv) benchmarking within the sector on the gross value of the colleges' estates in order to assess whether colleges were receiving appropriate funding;
- (v) the need for the Executive to have College estates projects ready in case end of year funding became available.

## 5.3 CAPITAL MAINTENANCE FUNDING

5.3.1 The Committee NOTED a formal email response from the SFC Chief Executive to the College Principals' Group regarding the capital funding allocation for 2016/17. The Chief Operating Officer highlighted that Colleges Scotland had emphasised to both Scottish Government and the SFC the importance of meaningful strategic dialogue, whilst ensuring that the consequences of information communicated was 'fully understood' by all parties.

5.3.2 The Committee NOTED that a report on capital funding would be presented to the Policy & Resources Committee on 14 June.

### 5.3 CONFIRMATION OF IN-YEAR CUT IN ESF FUNDING

5.3.1 The Committee NOTED a letter from the SFC Chief Executive (date 18 May) confirming the transfer of Edinburgh College's planned ESF activity and associated funding for the academic year 2015/16 to another college.

5.3.2 The Committee DISCUSSED the challenges faced by the College in meeting the 2015/16 credit targets and the more positive performance (to date) in meeting the 2016/17 targets, as highlighted under Minute 6.2.

### 5.4 TENDER QUOTATION THRESHOLD CHANGES

5.4.1 The Committee NOTED a report outlining the changes to tender quotation thresholds in order to comply with legislative changes arising from the Procurement Reform Act.

5.4.2 The Committee NOTED recommended changes to thresholds and the subsequent levels of authorisation as outlined by the Chief Operating Officer. The creation of a procurement team intranet page, containing step-by-step guidance on the procurement process and all appropriate forms was welcomed by the Committee.

5.4.3 The Committee DISCUSSED the changes and their impact on financial delegated authority within the College. The Committee APPROVED the proposed tender quotation threshold changes and the subsequent amendments to the College's Financial Regulations.

## 6 RISK ASSURANCE

### 6.1 RISK MANAGEMENT REPORT

6.1.1 The Committee NOTED the Top Risk Register (TRR) to June 2016, which had seen one change since it was last reviewed by the Committee. The Chief Operating Officer highlighted that 'TR2', loss of senior staff, had moved from Green to Amber due to the ongoing restructure as part of the transformation plan.

6.1.2 The Committee DISCUSSED the TRR and AGREED that the Chief Operating Officer should consider making 'unmitigated risk' scores higher than 'mitigated risk' scores, to illustrate that the College is reacting to individual risks.

6.1.3 The Committee NOTED a new TRR for 2016/17, which was currently under development. The Governance Director informed the Committee that the Senior Management Group (SMG) had reviewed the College's key risks at a workshop on 25 February and further to consultation with Board members, began to develop a revised risk register.

6.1.4 The Committee NOTED that the Governance Director had undertaken further work with SMG members to develop the mitigations outlined in the TRR, with the ultimate objective of creating a more coherent approach to strategy and risk within the College.

6.1.5 The Committee DISCUSSED the new TRR as presented by the Governance Director and commented on the following:

- (i) the need to identify a more detailed action plan and a means to provide further assurances to the Committee on each contributory risk;
- (ii) separate, more detailed, paper(s) outlining specific risks and mitigations (including a means of monitoring their effectiveness) as a subsidiary document to the TRR;
- (iii) the importance of inviting members of SMG to attend Committee meetings to discuss individual risks;
- (iv) the TRR as a means to summarise risks and KPIs within the organisation, and the importance of appropriate risk tolerances as a means to raise red flags to the Board;
- (v) the need to consider risk assurance as part of the next Board Strategy Day.

6.1.6 The Committee welcomed the development of a new TRR and its general direction thus far. The Committee NOTED that the process of developing the TRR provided a useful platform for risk management capacity building within the SMG.

## 6.2 2016/17 CREDITS & APPLICATIONS UPDATE

***Jonny Pearson, Associate Principal Recruitment & Retention, joined the meeting.***

6.2.1 The Committee NOTED an update on the College's performance against its 2016/17 recruitment and credits targets, as of 20 May. The Associate Principal confirmed that he was confident that the College would meet its recruitment targets, and by November surpass its 2016/17 credits targets.

6.2.2 The Committee NOTED that both College Community and International recruitment appeared low in comparison with other areas. The Associate Principal highlighted that this was due to: the receipt of paper applications in College Communities which required more administrative time; and, International courses not opening for recruitment until 04 April.

6.2.3 The Committee welcomed the positive recruitment shown for 2016/17 and DISCUSSED the following:

- (i) the oversubscription of some courses, for instance Health & Social Care, and the process of monitoring and, if necessary, closing recruitment;
- (ii) Construction, Engineering and International receiving less applications than spaces available;
- (iii) the need to guide all courses towards using the electronic application system;
- (iv) the success of the 'one application per applicant' approach since its implementation;

- (v) the College's guarantee of a place for every school leaver who does not have a positive destination.

6.2.4 The Committee AGREED that to provide the Committee with the most up-to-date recruitment and credits data the Executive and the Governance Team should consider how best to present such information.

***Jonny Pearson left the meeting***

**6.3 REPORT ON CREDITS TARGETS, FRAMEWORKS & CURRICULUM**

6.3.1 The Committee NOTED an investigative report from the Principal into matters relating to the College's credit targets, frameworks and curriculum. The Principal highlighted to the Committee that her findings had been reported verbally to the Board as part of a closed session on 09 February.

6.3.2 The Committee NOTED a summary of the key findings, including; the contributory factors relating to the shortfall in student number and areas where the College had failed to modernise and address the effectiveness of its curriculum framework. The Principal reminded the Committee that to remedy issues outlined within the report the College had begun the process of rebasing its targets, through the Business Transformation Plan.

6.3.3 The Committee NOTED that since the Principal had reported to the Board on 09 February, further work had been conducted, including; an audit of the curriculum framework, the continued development of a 'curriculum for the future' and the advancement of the student recruitment process. The Principal highlighted that the audit of the curriculum framework had provided an excellent basis for ensuring the College's 2015/16 credits claim was legitimate, accurate and reflective of the activity being delivered. The positive impact of changes to the process of student recruitment and areas continued improvements were also drawn to the Committee's attention.

6.3.4 The Committee NOTED a number of lessons learned from the Principal's review and the work undertaken over 2015/16 to consolidate the transformation plan.

6.3.5 The Committee welcomed the Principal's robust report, and DISCUSSED the following matters:

- (i) The need to reflect the lessons learned within the Top Risk Register;
- (ii) the reassurances given by the Executive to the Committee and the Board in the past;
- (iii) the procedures in place for conducting Executive performance reviews;
- (iv) the culture within the College, and the degree to which assurances were sought along the 'management chain';
- (v) the improvements made in turning information held by the College into 'intelligence';

- (vi) performance monitoring within the College, and the need to ensure that the Committee and the Board monitor the right points.

6.3.6 The Committee Chair, on behalf of the Committee, thanked the Principal for presenting the report a discussing it openly with members.

## **7 FINANCIAL YEAR END PLANNING**

### **7.1 FINANCIAL ACCOUNTS ANNUAL AUDIT PLAN**

7.1.1 The Committee NOTED an Audit Strategy Review and Plan outlining the external auditors planned work for 2015/16.

7.1.2 The Committee NOTED the context of the audit work which would examine the College's predicted credit shortfall in 2015/16, focussing on the methodology behind credit calculations to ensure their accuracy. The external auditors also highlighted that to address the long-term challenges facing the College, the following four main areas would also be assessed:

- (i) Financial sustainability;
- (ii) curriculum relevance;
- (iii) workforce development and structure; and,
- (iv) recruitment, retention and productivity.

7.1.3 The Committee DISCUSSED the dimensions of the planned audit work in the context of the Code of Audit Practice 2016.

7.1.4 The Committee AGREED that the Audit Strategy Review and Plan, as outlined by the External Auditors, was appropriate.

### **7.2 FRS102 & GENERAL ACCOUNTING POLICIES**

7.2.1 The Committee NOTED that the College was required to present its financial statements under the new SORP (Statement of Recommended Practice) for Further Education, in line with FRS102. The Chief Operating Officer highlighted that 2015/16 was the first reporting year under the new requirements, and that the College would therefore be required to restate its comparative primary statements, supporting notes and opening reserves.

7.2.2 The Committee APPROVED the FRS102 Accounting Policy presented by the Chief Operating Officer, which included the College's Financial Reporting Standards and the Principle Accounting Policies.

## **8 INTERNAL AUDIT**

### **8.1 SUMMARY OF AUDIT RECOMMENDATIONS**

8.1.1 The Committee NOTED the current status of internal audit recommendations from 2011/12, 2013/14 and 2014/15, as previously reviewed by the Committee.

8.1.2 The Committee DISCUSSED the 2011/12 and 2013/14 audit recommendations which were scheduled for completion in 'Q3 2016'. The Chief Operating Officer informed the Committee that the Head of IT would aim to have most actions completed by December 2016. The Committee AGREED that at its next meeting on 23 November these longstanding recommendations should be completed or (at least) an exact date of completion stated.

8.1.3 The Committee DISCUSSED the risk associated with incomplete audit recommendations, and AGREED that future Summary of Audit Recommendation Reports should include a risk category – to flag any concerns to the Committee.

### **8.2 EMA, BURSARIES AND STUDENT SUPPORT FUNDS**

8.2.1 The Committee NOTED an internal audit report on the College's arrangements for administering EMAs, bursaries and student support funds. The internal auditors confirmed that the College had effective processes and controls in place in relation to student support funding, and highlighted a number of areas of good practice

8.2.2 The Committee NOTED that the audit review had identified some opportunities for further improvements to existing processes, including:

- (i) the introduction of further managerial reviews of electronic applications;
- (ii) the implementation of segregation of duties for FE and HE Discretionary Funds applications;
- (iii) the formulation of an overarching students support funding framework document;
- (iv) the introduction of formal reporting procedures at SMG and Board level.

8.2.3 The Committee welcomed the positive report and looked forward to reviewing progress on the recommendations outlined.

### **8.3 INTERNAL AUDIT 2015/16 PROGRESS REPORT**

8.3.1 The Committee NOTED an internal audit progress report for 2015/16 which highlighted that five internal audits had been completed, and that two further reports were with senior management for review. The Principal confirmed that she would be meeting with the internal auditors to discuss the Priority Based Budget and Curriculum Planning internal audit reports before their presentation to the Committee.

## 9 REVIEW OF COMMITTEE OPERATION

### 9.1 AUDIT COMMITTEE HANDBOOK SELF-EVALUATION

9.1.1 The Committee NOTED a self-appraisal checklist which contained the collated feedback of Committee Members. The Committee Chair informed Members that the Scottish Government's Audit Committee Handbook advised committees to regularly review their effectiveness against their formal terms of reference.

9.1.2 The Committee NOTED the collated responses and DISCUSSED the following matters arising:

- (i) In relation to Q2.7, the Committee AGREED that Ian Doig's role as a co-opted member and his independence from other committees and the Board should be highlighted;
- (ii) the internal auditors informed members that, in relation to Q4.8, the internal audit plan had been cross-referenced with the College's risk register;
- (iii) the Committee AGREED that, with reference to Q6.8, internal audit performance measures should be brought forward by the internal auditors to the next meeting;
- (iv) with reference to Q7.7, the Committee NOTED that Audit Scotland on the performance of external auditors. Members AGREED that the Chief Operating Officer should double-check whether any further assessment of external auditor's performance was required by Audit Scotland.
- (v) the Committee DISCUSSED how it had 'effectively contributed to the overall control environment' of the College (Q9.1 refers), and AGREED that examples of its contribution should be evidenced in the checklist.
- (vi) the Committee DISCUSSED areas where it could improve upon its current level of effectiveness (Q9.2 refers). The Committee AGREED that it would be good practice for the Board to conduct an annual risk review and recommended to the Governance Director that such an item be added to the next planned Board Strategy Day agenda.
- (vii) the Committee DISCUSSED the requirement to for the Board and Accountable Officer to feedback on its performance annually. The Committee encouraged the Principal to feedback to the Chair or the Committee Chair regarding any issues with the performance of the Committee arose.

***Ian Doig left the meeting***

## 9.2 REVIEW OF COMMITTEE OPERATION

- 9.2.1 The Committee NOTED that at the end of each academic year the Committee is required to review its annual activity. The Committee Chair advised the Committee that the same evaluation form, which asked members to consider the committee's operation and its performance monitoring and strategic roles, would be completed by all committees of the Board.
- 9.2.2 The Committee NOTED that its operation was compliant with its terms of reference, as discussed under Minute 9.1.
- 9.2.3 The Committee DISCUSSED its performance in relation to its performance monitoring, strategic roles, decision-making and relationship. The Committee Chair highlighted to members that he would work with the Chief Operating Officer to develop further the performance monitoring information received by the Committee.

### ***Niki McKenzie left the meeting***

- 9.2.4 The Committee DISCUSSED the format of the Review of Committee Operation paper, and AGREED that 'Part 2' questions should be re-circulated to members with a request for evidence relating to each point.

## 10 ANY OTHER COMPETENT BUSINESS

### 10.1 HORIZON SCANNING UPDATE

- 10.1.1 The Committee NOTED the appointment of John Swinney MSP as Scotland's new education secretary as part of the First Minister's cabinet reshuffle. The Chief Operating Officer outlined further details on the Education Secretary's new role and other relevant ministerial appointments.
- 10.1.2 The Committee NOTED that, on 26 May, Audit Scotland published a new Code of Audit Practice which applies to all auditors from October 2016 onwards. The Chief Operating Officer informed the Committee that Audit Scotland had also confirmed that the College's external auditor work for the next five years would be conducted by Audit Scotland directly.

## 11 DATE OF NEXT MEETING

- 11.1 The next meeting will take place on 23 November 2016 at 16:00 in the Boardroom, Milton Road Campus.

***The meeting closed at 18:45***