



For the future you want

AUDIT & RISK ASSURANCE COMMITTEE

MINUTES OF MEETING OF 23 NOVEMBER 2016

16:00, Boardroom, Milton Road

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

In attendance: A Bruton; C Brown (Scott-Moncrieff); A Craig; P Davis; H Harvie (KPMG); I McKay; H Russell (Audit Scotland) M Swann (KPMG); J Thomson (Scott-Moncrieff); L Towns; M Walker (Clerk); A Williamson; R Whetton.

1 WELCOME & APOLOGIES

- 1.1 Apologies were received from Fiona Riddoch.
- 1.2 The Committee Chair welcomed Alex Craig, Depute Principal, and Richard Whetton, Head of Corporate Development, to their first meeting of the Committee.
- 1.3 The Committee Chair welcomed Helen Russell, Senior Audit Manager at Audit Scotland, to the meeting. The Committee NOTED that Audit Scotland would act as external auditors to the College from 2016/17 to 2020/21. The Senior Audit Manager introduced the new external audit team and outlined the proposed audit approach for the 2016/17 accounting period.
- 1.4 The Committee Chair informed those in attendance that Committee members had met privately with both the internal and external auditors prior the meeting, in line with good practice recommended in the Scottish Government's Audit Committee Handbook.

2 DECLARATIONS OF INTEREST

- 2.1 None.

3 MINUTES OF PREVIOUS MEETING

3.1 The Committee APPROVED the minutes from the meeting of 02 June 2016.

4 MATTERS ARISING

4.1 MATTERS ARISING REPORT

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

4.1.2 With reference to action relating to the briefing on College funding arrangement provided on 21 June (minute 6.1.5/ 25.02.16 refers), the Committee AGREED that it would be appropriate to conduct similar events for Board members on a regular basis.

4.2 QUALIFICATION CHANGE MONITORING UPDATE

4.2.1 The Committee NOTED that an update on course and qualification change management following a previous discussion by members relating to qualifications within the curriculum area of Construction & Building Craft.

4.2.2 The Committee NOTED reassurances that appropriate mechanisms were in place to monitor qualification changes. The Principal informed the Committee that the Head of Policy, Planning and Performance would be liaising with faculties, and providing appropriate training, to ensure correct procedures were adhered to.

4.3 AUDIT COMMITTEE HANDBOOK SELF-EVALUATION

4.3.1 The Committee NOTED an approved version of the Audit Committee Handbook Self-Evaluation Checklist, as agreed outwith the meeting.

4.4 REVIEW OF COMMITTEE OPERATION 2015/16

4.4.1 The Committee NOTED an approved version of the Review of Committee Operation 2015/16, as agreed outwith the meeting.

5 FINANCIAL REPORT

5.1 REVIEW OF BUSINESS TRANSFORMATION PLAN AND MANAGEMENT RESPONSE

5.1.1 The Committee NOTED that a review of the Business Transformation Plan, jointly commissioned by the Board of Management and the SFC, had been considered by the Board on 20 September 2016.

5.1.2 The Committee NOTED that the Policy & Resources Committee, with delegate authority to oversee the transformation plan, had approved a management response to the review at its meeting on 15 November. The Principal informed the Committee that the review had subsequently been submitted to the SFC with a formal note of Board approval.

- 5.1.3 The Committee NOTED that the management response brought together recommendation/actions from other external audits and reviews, to ensure that all responses were embedded within the transformation plan. The Principal informed the Committee that this approach aimed to mitigate the potential risks of working to several different action plans.
- 5.1.4 The Committee DISCUSSED the project management of the transformation plan and the supervisory role of the newly appointed Head of Corporate Development. The Head of Corporate Development advised the Committee that a project of the transformation plan's scale required a project management office (PMO), and appropriate staff development to ensure the plan's effective execution.
- 5.1.5 The Committee NOTED the need to maintain the pace of progress on the transformation plan, and for the College to continue its forward focussed and flexible approach to planning.

5.2 PRIORITY BASED BUDGETING AND MANAGEMENT ACCOUNTING AUDIT REPORT

Paragraph 5.2 presently exempt from publication under the Freedom of Information (Scotland) Act 2002, Section 30, Prejudice to the Effective Conduct of Public Affairs.

5.3 CURRICULUM PLANNING AUDIT REPORT

Paragraph 5.3 presently exempt from publication under the Freedom of Information (Scotland) Act 2002, Section 30, Prejudice to the Effective Conduct of Public Affairs.

5.4 REVIEW OF CREDITS DATA RETURN 2015/16

- 5.4.1 The Committee NOTED an internal audit review of the Edinburgh College Credits Data Return 2015/16, which examined the procedures and controls in the returns accuracy.
- 5.4.2 The Committee NOTED the College Audit Certificate 2015/16, as submitted by the internal auditors to the SFC.

5.5 INTERNAL AUDIT FOLLOW-UP REPORT 2015/16

- 5.5.1 The Committee NOTED an Internal Audit Follow-Up Report 2015/16, which aimed to provide assurances that internal audit actions agreed during the previous financial year had been implemented satisfactorily.
- 5.5.2 The Committee NOTED that the College had made progress in implementing the 37 actions agreed in internal audit reports, however, it was highlighted that 10 actions from 2013/14 had not yet been fully implemented. The internal auditors advised the Committee that no high risk actions had been assessed as outstanding.
- 5.5.3 The Committee DISCUSSED outstanding actions related to performance monitoring and reporting. The Chief Operating Officer outlined performance information provided to the Board and its committees from 2013/14 to 2016/17, included Management Accounts and Regional Outcome Agreement (ROA)

Reports. The Committee NOTED that although this information had been reviewed, the internal auditors did not believe that ROA documentation considered by the Board clearly outlined performance and progression.

5.5.4 The Committee AGREED that the Executive should consider how to create a useful performance dashboard with the information it currently holds.

5.5.5 The Committee AGREED that at an appropriate point, before the end of the academic year, members would like to see an update that follows up all outstanding actions.

5.6 SUMMARY OF AUDIT RECOMMENDATIONS

5.6.1 The Committee NOTED the status of internal audit recommendations from 2011/12, 2013/14, 2014/15 and 2015/16, as previously reviewed by the Committee.

5.6.2 The Committee NOTED that actions relating to Business Continuity and Disaster Recovery had been marked complete, following developments made by the Head of ICT and his team. The internal auditors informed the Committee that corresponding actions had been updated on their Follow-Up Report (minute 5 refers). These completed actions are referred to as “outstanding” and due to be followed up, in paragraph 5.5.2

5.7 INTERNAL AUDIT ANNUAL REPORT 2015/16

5.7.1 The Committee NOTED an annual report on internal audit activity carried out during 2015/16. The internal auditors provided a statement on the internal audit cover achieved from 01 August 2015 to 31 July 2016, and a summary of audit opinion on the College’s control environment and systems of internal control.

5.7.2 The Committee NOTED that, subject to addressing issues summarised in the report, the College had a framework of controls in place that provided reasonable assurance regarding the effective and efficient achievement of the College’s objectives and the management risks.

5.7.3 The Committee DISCUSSED the weaknesses in control arrangements highlighted in the report, as previously considered under minutes 5.2 and 5.3. The internal auditor informed the Committee that actions had been agreed with management to improve controls in these areas.

5.8 INTERNAL AUDIT PLAN 2016/17

5.8.1 The Committee NOTED the Internal Audit Plan 2016/17, which covered the full range of systems in the College and was not restricted to financial systems alone.

5.8.2 The Committee DISCUSSED the following points related to the proposed Internal Audit Plan:

- (i) the areas of risk covered within the plan and their alignment to the risk register;
- (ii) the number of days audit work required in 2016/17;

- (iii) the number of recommendations arising from audits and the need to be cognisant of the resources available to the Executive to meet audit demands;
 - (iv) the need to ensure maximum value within the plan.
- 5.8.3 The Committee AGREED that information on scenario planning and sensitives should be captured within the proposed Financial Management audit.
- 5.8.4 The Committee AGREED that the internal auditors and the Chief Operating Officer should consider additional contingency days in order to respond to potential developments within the academic year.
- 5.8.5 The Committee DISCUSSED matters arising out of the recent Public Audit Committee relating to internal audit.
- 5.8.6 The Committee APPROVED the Internal Audit Plan 2016/17, subject to the inclusion of the amendments relating to minutes 5.8.3 and 5.8.4.

6 FINANCIAL ACCOUNTS

6.1 ANNUAL ACCOUNTS TO JULY 2016

- 6.1.1 The Committee NOTED a consolidated draft of the Annual Report and Financial Statements for the period ended 31 July 2016, and an accompanying draft Annual Audit Report submitted by the College's external auditors.
- 6.1.2 The Committee NOTED that 2015/16 was a challenging year for the College in terms of meeting its student activity targets and financial objectives. The Chief Operating Officer advised the Committee that under-achievement of the credit target had contributed to an operating loss over the financial year. The reduction in student related funding was further compounded by an £0.8m national pay increase.
- 6.1.3 The Committee NOTED that as a direct result of factors contributing to the operating loss, the College had agreed a transformation plan with the SFC. The Chief Operating Officer informed the Committee that the success of the plan would improve key performance statistics, and the associated financial position of the College by 2018/19.
- 6.1.4 The Committee DISCUSSED the financial impact on the Annual Accounts to July 2016 of a significant pension actuarial revaluation. The Chief Operating Officer informed the Committee that the pension actuarial valuation was the main contributor of the variance indicated in the College operating deficit between the publication of the Management Accounts and the drafting of the Annual Accounts.
- 6.1.5 The Committee NOTED an overview of the draft Annual Audit Report as provided by the external auditors. The external auditors confirmed that the financial statements had been prepared in accordance with the Financial Reporting Standard (FRS 102), the Accounting for Further and Higher Education's Statement of Recommended Practice 2015 (SORP) and other relevant legislation.

- 6.1.6 The Committee NOTED a letter from the SFC Interim Chief Executive, John Kemp, which indicated ongoing financial support for the period of the Transformation Plan. The Committee were content that the Annual Accounts be prepared on a going concern basis.
- 6.1.7 The Committee DISCUSSED the Annual Accounts to July 2016 and the process of Board approval. Further to this, the Committee AGREED to recommend the approval of the financial statement to the Board, subject to agreement on the final wording between the Chief Operating Officer and the external auditors, with input from the Scottish Funding Council.
- 6.1.8 The Committee AGREED that a finalised version of the Annual Account to July 2016 and the Annual Audit Report should be circulated to the Committee and the SFC for review, prior to dissemination to the Board.
- 6.1.9 The Committee DISCUSSED the need for quarterly scenario planning and sensitivity analysis in case of future changes to the transformation plan. The Committee AGREED that such reporting should be presented to the Policy & Resources Committee at appropriate points in the Board cycle.

6.2 ACTUARIAL VALUE OF PENSION SCHEME REPORT

- 6.2.1 The Committee NOTED a report on the effects of the actuarial valuation of the College pension scheme.
- 6.2.2 The Committee DISCUSSED the projected liabilities of the scheme, and the Head of Finance provided further details on the liabilities attached to the pension deficit.

6.3 INTERNAL CONTROL ASSURANCE STATEMENT

- 6.3.1 The Committee NOTED that the Executive Team had each completed Internal Control Assurance Statements, based on the Scottish Government's own internal control framework template. The Principal informed the Committee that these statements enabled her to provide assurances to both the Board and SFC that appropriate internal controls within the College were in-place.
- 6.3.2 The Committee NOTED the internal control assurance statement provided by the Principal & Chief Executive.

6.4 LETTER OF REPRESENTATION

- 6.4.1 The Committee AGREED that a letter of representation should be circulated to the Committee, outwith the meeting, for consideration before its presentation to the Board on 13 December.

6.5 COMPLIANCE WITH THE CODE OF GOOD GOVERNANCE

- 6.5.1 The Committee NOTED the governance arrangements in-place across the College and their compliance with the Code of Good Governance for Scotland's Colleges ('the Code').
- 6.5.2 The Committee NOTED assurances that the College's governance arrangements were compliant overall. The Governance Director outlined to the

Committee an overview of the areas of governance with which the Code is concerned, and a list of relevant developments in the context of the Code's introduction.

7 RISK ASSURANCE

7.1 RISK MANAGEMENT REPORT

7.1.1 The Committee NOTED a report on progress in relation to risk management and reporting since the last meeting of the Committee in June 2016. The Governance Director also presented to the Committee a newly developed risk report, as endorsed by the Risk Management Group and senior management.

7.1.2 The Committee NOTED a change report, which highlighted changes in risk since the Top Risk Register 2015/16 was reviewed by members in June.

7.1.3 The Committee DISCUSSED the following matters related to the risk report and the changes highlighted:

- (i) the commendable work done by the Governance Director and senior management colleagues to create the risk report;
- (ii) the need for further clarification of the risk appetites and tolerance outlined in the report;
- (iii) the level of detail provided in the document and the need to draw out key risks to the Committee and the Board;
- (iv) the positioning of transformation plan risks within the report.

7.1.4 The Committee NOTED risk tolerances proposed by appropriate members of senior management and the Board's original risk appetite statement, and agreed risk levels, approved in June 2014.

7.1.5 The Committee DISCUSSED risk tolerance and AGREED that it would be appropriate for the Committee to consider risk tolerance/appetite and future reporting to the Board, outwith the Committee cycle.

7.1.6 The Committee NOTED that the general direction of the risk report was appropriate as management document, but AGREED that a more strategic risk report should be developed for consideration by the Board. The information in the report however would enable the Committee to probe in more detail, and obtain assurances on the management of individual risks in the future.

7.2 RECRUITMENT AND RETENTION REPORT 2016/17

7.2.1 The Committee NOTED an update from the Principal on the College performance against in 2016/17 recruitment and credits targets. The Principal informed the Committee that, as of 31 October, the full-time provision was close to the College's semester 1 target, whilst part-time provision was below initial projections.

7.2.2 The Committee NOTED reassurances from the Principal and Depute Principal that all efforts to meet the 2016/17 credit targets were being made by the Executive. The Depute Principal outlined ongoing actions taking place that

would see the semester 1 actual credits activity rise further before the end of November.

- 7.2.3 The Committee NOTED that the next update on retention and credits targets would be provided to the Board meeting on 13 December.

8 CHAIR'S ANNUAL REPORT TO THE BOARD

- 8.1 The Committee NOTED a draft Audit & Risk Assurance Committee Annual Report prepared by the Committee Chair.
- 8.2 The Committee AGREED that the annual report should highlight the following matters to the Board:
- (i) the criticality of a successful transformation to address the challenges faced by the College, and further develop its business and financial models over the course of the three year plan;
 - (ii) the importance of effective project management as a means to successfully implement the transformation plan.
- 8.3 The Committee AGREED that the Annual Report should be presented to the Board with the Annual Accounts.

9 ANY OTHER COMPETENT BUSINESS

9.1 HORIZON SCANNING UPDATE

- 9.1.1 The Committee NOTED an Audit Scotland sector-wide review of the college sector, in light of substantial changes affecting how colleges operate. The Chief Operating Officer highlighted the recommendation outlined for colleges, including the development of long-term (a minimum of 5 years) financial strategies, underpinned by 3 to 5 year financial plans that link to workforce planning.
- 9.1.2 The Committee NOTED that the College's Section 22 (the 2014/15 audit of Edinburgh College) response to the Public Audit Committee (PAC) submitted on 27 September 2016. The Chief Operating Officer advised the Committee that following a meeting of the PAC on 06 October, the Principal, Chief Operating Officer and internal auditors had given oral evidence on the report at a PAC meeting held on 17 November.
- 9.1.3 The Committee NOTED an initial overview of the impact of BREXIT on further education institutions. The Chief Operating Officer highlighted that four key areas of impact included, income from the European Union, other current major European-funded projects, students from other European countries, and staff in colleges.
- 9.1.4 The Committee NOTED that following the UK Government's Autumn Statement, the Scottish Government would set out its own detailed spending plans in its Draft Budget on 15 December.

- 9.1.5 The Committee DISCUSSED cloud storage and the Scottish Government's drive for its use in the public sector. The Committee AGREED that the Policy & Resources Committee should receive a report from the Head of ICT on cloud storage, including an overview of the 'character' of information held by the college holds (e.g. confidentiality risks).

9.2 EXTERNAL AUDITORS END OF TENURE

- 9.2.1 The Committee NOTED that the tenure of KPMG as external auditors to the College was due to expire. The Committee Chair, on behalf of members, thanked Hugh Harvie and Swann for their contribution to the Audit & Risk Assurance Committee.

Chris Brown, Hugh Harvie, Matt Swann and James Thomson left the meeting.

9.3 INTERNAL AUDIT TENDER PROCESS

- 9.3.1 The Committee NOTED the College's three year contract with the internal auditors, Scott-Moncrieff, was due to end on 31 July 2017.
- 9.3.2 The Committee DISCUSSED the options put forward by the Executive regarding the extension of the current provider's contract or the tender for a new provider. The Head of Corporate Development advised the Committee of the potential risks associated with changes to the internal audit team during a pivotal phase of the transformation plan.
- 9.3.3 The Committee AGREED that the Committee Chair and/or the Principal should meet privately with senior auditors from Scott-Moncrieff, to seek reassurances on their approach to future audit work, before deciding whether to extend their internal audit contract for a further year.

10 DATE OF NEXT MEETING

- 10.1 The next meeting will take place on 09 February 2017 at 16:00 in the Boardroom, Granton Campus.

The meeting closed at 19:15