



AUDIT & RISK ASSURANCE COMMITTEE

MINUTES OF MEETING OF 25 FEBRUARY 2016

16:00, Boardroom, Milton Road

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

In attendance: A Bruton; H Harvie (KPMG); I McKay; J 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 30 November 2016.

4 MATTERS ARISING

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

5 FINANCIAL ACCOUNTS

5.1 ANNUAL ACCOUNTS TO JULY 2015

5.1.1 The Committee NOTED that the Board were content to approve the Financial Account (to July 2015) and the supporting Letter of Representation endorsed by the Committee at its last meeting on 30 November.

5.1.2 The Committee NOTED the audited Annual Accounts to July 2015 (signed by the Principal and the Chair) as submitted to the SFC on 22 December

2015. The Chief Operating Officer confirmed that the figures within the Annual Accounts were the same as those reviewed by the Committee in November.

5.1.3 The Committee NOTED the External Auditor's assessment that the SFC were content with assurance relating to the College as a growing concern, and their commitment to future funding through the proposed Business Transformation Plan. The External Auditor informed the Committee that key risks facing the College had been appropriately disclosed in the Annual Accounts, and that action plans were in-place to respond to such risks.

5.1.4 The Committee DISCUSSED the following matters related to the Annual Accounts and the assurances sought by the College and the SFC:

- (i) The position of the SFC and the comfort sought through the agreement of a transformation plan at the end of March 2016;
- (ii) the impact of the credits shortfall on the Annual Accounts to July 2015, and the implications for 2015/16;
- (iii) the importance of financial reserves for an organisation to run effectively, and the problems faced by the College as a central public body.

5.2 FINANCE REPORT

5.2.1 The Committee NOTED correspondence between the College and the SFC regarding the financial implications of the credits shortfall and the rebasing of the College's credit targets.

5.2.2 The Committee NOTED the attempts made by the Chief Operating Officer to seek assurances on the financial clawback from the SFC, following the credits shortfall.

5.2.3 The Committee DISCUSSED the correspondence provided and the following issues related to the College's budget and solvency:

- (i) the mechanism of 'drawing down cash', agreed with the SFC, to meet the demands of salaries and creditors;
- (ii) the 'cash level' the College was currently drawing down from, and the restrictions (if any) placed on this practice;
- (iii) future funding through the transformation plan over the short and long-term.

5.2.4 The Committee AGREED that it was important to relay the timeframe for the Business Transformation Plan back to the SFC, outwith the transformation plan working group, in order to make the process as transparent as possible.

5.2.5 Further to this, the Committee AGREED that the Chief Operating Officer should place the key financial information related to the assurances sought by the College in the summary of future Management Accounts.

5.3 RESOURCE RETURN MARCH 2016

5.3.1 The Committee NOTED an update from the Chief Operating Officer on the preparations for the March 2016 Resource Return.

5.3.2 The Committee DISCUSSED the implications of the College's financial deficit position, and NOTED that the Resource Return would be presented to the next meeting of the Policy & Resources Committee.

6 RISK ASSURANCE

6.1 RISK MANAGEMENT UPDATE

6.1.1 The Committee NOTED the Top Risk Register (TRR) as reported to the Board on 09 February. The Chief Operating Officer informed the Committee that the Executive Team had reviewed the TRR and a half-day session with the Senior Management Group had taken place (on 25 February) to consider the relevance of each top risk.

6.1.2 The Committee NOTED that six top risks had been identified by the Senior Management Group, and that a further session would be held to consider risk tolerance, risk appetite and the steps taken by the College to deal with such occurrences. The Chief Operating Officer informed the Committee that once this second session had taken place a new TRR would be developed.

6.1.3 The Committee NOTED that the Board would also be consulted to establish what they considered their top 3-5 College risks, and a reconfigured TRR would be presented to the Board in due course.

6.1.4 The Committee welcomed the development of a refreshed TRR and DISCUSSED the following points:

- (i) the data the Committee and the Board required to accurately assess risk;
- (ii) the level of detail required by the Board to monitor risks effectively, and whether any 'gaps' in the TRR currently existed;
- (iii) the improvements the College had made to its information systems;
- (iii) the Board's understanding of the College's funding and the risks associated.

6.1.5 The Committee AGREED that, as part of their induction, all new Board members should receive a briefing session on the College's funding arrangements. Further to this, the Committee AGREED that a reference document should be developed to support such a session.

6.2 BUSINESS TRANSFORMATION PLAN AND ASSOCIATED RISKS

6.2.1 The Committee NOTED that in response to the financial and operational challenges faced by the College, the Board (on 08

December) had agreed to launch a three-year transformation plan that would redevelop its business and financial models. The Principal informed the Committee that since the transformation plan was proposed a working group, consisting of members of the senior management, the Board and the SFC, had agreed the following four transformational programmes:

- (i) Financial sustainability: priority based budgeting and estates strategy;
- (ii) curriculum relevance, regional and CPP coherence;
- (iii) workforce development and structure;
- (iv) recruitment, retention and productivity.

6.2.2 The Committee NOTED an initial draft of the risk register for the transformation plan, and DISCUSSED the potential risks associated with each programme.

6.2.3 The Committee welcomed the news that the Internal Auditors had agreed to provide project planning assistance to support the transformation process.

6.2.4 The Committee AGREED that the Chief Operating Officer and the Deputy Principal should reconsider the 'Green' status attributed to the 'mitigated risk factors' for the College's current cash position and the appropriate involvement of staff, students and trade unions.

6.3 2015/16 CREDITS & 2016/17 APPLICATIONS UPDATE

6.3.1 The Committee NOTED the College's current credit position and an update on 2016/17 applications. The Principal informed the Committee that it was highly unlikely that the College would achieve its 2015/16 credit target.

6.3.2 The Committee NOTED the financial impact of the potential forecast credit shortfall for 2015/16, and the planned improvements to mitigate the risk of such a shortfall in the future.

6.4 CREDIT TARGETS/Frameworks AND MULTIPLE ENROLMENT INVESTIGATIVE REPORT

6.4.1 The Committee NOTED that, on 30 November, it had considered a significant development in relation to a shortfall in student numbers, credits and the financial impacts of the matters of the College. The Principal restated to the Committee that the College had been challenged by the SFC in-relation to its SUM's claim for 2014/15, and had subsequently reduced its claim for the year. Further to this, the College had re-adjusted and reduced its claim for 2015/16.

6.4.2 The Committee NOTED that the Principal, as Investigative Officer, had undertaken an investigation into the student activity shortfall, and had verbally updated the Board (on 08 December) with her findings.

6.4.3 *Paragraph 6.4.3 presently exempt from publication under the Freedom of Information (Scotland) Act 2002, Section 30, Prejudice to the Effective Conduct of Public Affairs.*

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6.5 PREVENTION OF FRAUD, BRIBERY & CORRUPTION REPORT

6.5.1 The Committee NOTED a report on the College's policies and procedures to prevent instances of fraud, bribery and corruption. The Chief Operating Officer informed the Committee of the controls in-place and provided a brief overview of both the Whistleblowing Policy and the Anti-Fraud Policy.

6.5.2 The Committee DISCUSSED the following aspects of the College and the sectors approach to instances of fraud, bribery and corruption:

- (i) the standardisation of guidance across the sector;
- (ii) the active mechanisms embedded at the College to seek out any such instances;
- (iii) the dissemination of relevant information to staff as part of their induction and continued development;
- (iv) the importance of risk assessments and the need to actively identify risks and those staff affected.

6.5.3 The Committee AGREED that the Chief Operating Officer should ensure appropriate guidance on fraud, bribery and corruption is included within staff induction guidance.

6.5.4 The Committee AGREED that the following minor amendments, as suggested by Members, should be made to the Anti-Fraud Policy (and where application the Whistleblowing Policy) to consolidate both documents further:

- (i) Under 5.4, 'Responsibility of Employees', include a general statement relating to 'not turning a blind eye' to matter of fraud;
- (ii) Under 5.8, 'Conflicts of Interest', clarify that 'if in doubt' conflicts of interest should be recorded;
- (iii) include a definition of 'false accounting' to clarify the wider concept;
- (iv) highlight the individual responsibility of employees to 'immediately' inform the College of instances of fraud, bribery or corruption.

7 INTERNAL AUDIT

7.1 SUMMARY OF AUDIT RECOMMENDATIONS

7.1.1 The Committee NOTED the current status of internal audit recommendations from 2012/13, 2013/14 and 2014/15, as previously reviewed by Committee.

7.1.2 The Committee NOTED ongoing developments around business continuity & disaster following a report from the Head of IT/MIS at the last meeting of the Committee. This included consultation with the Senior Management Group to develop appropriate business continuity scenarios and to confirm priorities for business applications.

7.1.3 The Committee NOTED that actions relating to workforce management were currently being addressed as part of the Business Transformation Plan.

7.2 INTERNAL AUDIT PLAN 2015/16

7.2.1 The Committee NOTED an Internal Audit Plan 2015/16, which had been designed to provide assurances on the effective management of the College's key risks. The Internal Auditor highlighted specific changes to the Plan, as requested by the Committee at its last meeting, which included audits focussing on: Priority based budgeting; curriculum planning; and, the addition of contingency days.

7.2.2 The Committee NOTED the internal audit timetable for 2015/16 and the progress made on two audits which commenced in February 2016. In addition, the Internal Auditor outlined the internal audit assignment plans which provided the background, scope and business objectives agreed between the Executive and the internal auditors.

7.2.3 The Committee DISCUSSED the process of selecting auditors for specific College audits. The Internal Auditor informed the Committee that whilst auditors were not subject experts, they were handpicked to match the requirements of individual audits.

7.2.4 The Committee AGREED that the updated Internal Audit Plan 2015/16 contained appropriate audits, and were content for it to be implemented.

8 ANY OTHER COMPETENT BUSINESS

8.1 HORIZON SCANNING UPDATE

8.1.1 The Committee NOTED a 'Horizon Scanning Update' which outlined the upcoming legislative and policy changes that were relevant to the Committee.

8.1.2 The Committee NOTED an update on the financial reporting regulation changes which would come into effect for the 2015/16 financial year end. The Chief Operating Officer informed the Committee that policy changes relating to accounting would go forward to the Policy & Resources Committee for review on 29 March. The Committee AGREED that the paper presented to the Policy & Resources Committee should be circulated to its members, for reference.

- 8.1.3 The Committee NOTED that the College's current banking agreements with Lloyds Bank would expire on 31 March 2016. The Chief Operating Officer advised the Committee of the requirement to transfer to the Government Banking Services Contract held by RBS, and the planning and processes in-place to support the transition.
- 8.1.4 The Committee NOTED that the Government had announced the introduction of an Apprenticeship Levy in April 2017, to increase large employers' contribution towards staff training. The Chief Operating Officer outlined the full year forecast costs of the initiative to the College based on current salaries.
- 8.1.5 The Committee NOTED the Scottish Government had published its Draft Budget proposal for 2016/17, which included planned funding for colleges. Members DISCUSSED the main items highlighted within the SFC letter of guidance 2016/17, and its potential implications for increased governance and compliance within the sector. The Committee AGREED that the Chief Operating Officer would circulate, for reference, guidance on severance schemes to its members.

James Thomson (Scott-Moncrieff) left the meeting

8.2 AUDIT SCOTLAND: SCOTLAND'S COLLEGES 2016

- 8.2.1 The Committee NOTED the scope and impact of the proposed Audit Scotland 2016 audit of Scotland's colleges. The Chief Operating Officer highlighted to the Committee that Audit Scotland would publish its report in the summer of 2016, hence it was expected that the audit process would commence shortly.
- 8.2.2 The Committee AGREED that through the audit process, and dialogue with the SFC and Scottish Government, it was important for senior College staff to stress the need for 'certainties' within the sector.

8.3 PROCUREMENT OF AUDITORS

- 8.3.1 The Committee NOTED an update from the External Auditor on the ongoing procurement process, led by Audit Scotland, for selecting external auditors for the FE sector.

Hugh Harvie (KPMG) left the meeting

8.4 INTERNAL AUDIT SERVICES

- 8.4.1 The Committee NOTED the contractual arrangements of the College's Internal Auditors, Scott-Moncrieff, and the Executive's proposal to migrate the extant contract on to the APUC Framework Internal Audit Agreement for a period of 1 or 2 years (with immediate effect).
- 8.4.2 The Committee DISCUSSED the current internal audit arrangements and AGREED with the Executive's recommendation to extend the Scott-Moncrieff contract until July 2017.

9 DATE OF NEXT MEETING

- 9.1 The next meeting will take place on 14 April 2016 at 16:00 in the Boardroom, Milton Road Campus.

The meeting closed at 18:05