



For the future you want

AUDIT & RISK ASSURANCE COMMITTEE

MINUTES OF MEETING OF 29 MAY 2019

15:00 Boardroom, Milton Road Campus

Present: Ian Doig; Ross Laird; Nigel Paul (Chair); Judith Sischy

In attendance: Brian Battison (Audit Scotland); Claire Robertson (BDO); Lindsay Towns; Marcus Walker (Clerk); Alan Williamson

1 WELCOME AND APOLOGIES

- 1.1 Apologies were received from Lesley Drummond.
- 1.2 The Committee Chair welcomed Ross Laird to his first meeting of the Audit & Risk Assurance Committee, following the appointment of Mr Laird by the Board on 19 March 2019. The Committee Chair advised members that due to a prior commitment Lesley Drummond, a second new appointee to the Audit & Risk Assurance Committee, could not be in attendance at the meeting.
- 1.3 The Committee NOTED that Audit Director, Gordon Smail, would act as Audit Scotland's 2018/19 Audit Lead for Edinburgh College in the temporary absence of the Senior Audit Manager, Ursula Lodge.

2 DECLARATIONS OF INTEREST

- 2.1 No declarations of interests were received.

3 MINUTES OF PREVIOUS MEETING

- 3.1 The Board APPROVED the minutes from 27 February 2019 as an accurate record of the meeting.

4 MATTERS ARISING

4.1 The Committee NOTED that actions from the previous meeting were complete, overtaken or on the agenda, with the exception of the following:

4.1.1 *COUNTER FRAUD CONTROLS: MATURITY MODEL (Minutes 7.3.3 / 27.02.19 refers)*

The Committee DISCUSSED the benefits of considering counter fraud controls against a maturity model going forward. The Committee AGREED that, in advance of its next meeting, the Chief Operating Officer should review staff ethics within the College's policies and consider whether it required further development to mitigate the risk of potential incidents.

6 INTERNAL AUDIT

6.1 SUMMARY OF AUDIT RECOMMENDATIONS

6.1.1 The Committee NOTED a report on progress against internal auditors recommendations previously reported to the Audit & Risk Assurance Committee in 2014/15 and 2017/18.

6.1.2 The Committee DISCUSSED matters relating to corporate governance and AGREED that the internal audit report, reviewed by the Committee in February 2019, should be made available to the external reviewer conducting the 2019 Edinburgh College Governance Review.

6.1.3 The Committee DISCUSSED outstanding internal audit actions relating to workforce management and succession plans, and AGREED that proposed completion dates should be incorporated in future reports.

6.2 INTERNAL AUDIT REPORT: FINANCIAL CONTROLS

6.2.1 The Committee NOTED that internal audit had conducted a review into the key financial control processes at Edinburgh College. The Internal Auditor advised the Committee that 'moderate assurance' had been received in relation to the design and operational effectiveness of the controls in place regarding financial controls.

6.2.2 The Committee NOTED that six recommendations, which would serve to improve the overall control environment, had been outlined in the report. The Committee welcomed the report and DISCUSSED management processes in place and the scope of the internal audit which included a review of the controls in place to avoid incidents of fraud.

6.3 INTERNAL AUDIT REPORT: USE OF TECHNOLOGY

6.3.1 The Committee NOTED that as part of the 2018/19 Internal Audit Plan, it was agreed by management and the Audit & Risk Assurance Committee that Internal

Audit would conduct a review of arrangements in place to consistently make effective use of technology in learning and teaching, in line with student expectations and organisational goals. The Internal Auditor advised the Committee that 'moderate assurance' had been received in relation to the design and operational effectiveness of the controls in place regarding use of technology at the College.

6.3.2 The Committee DISCUSSED its concerns regarding the lack of funding for investment in digital infrastructure and innovation, in order to expand the use of technology across the College, and the ongoing discussion with the SFC relating to the prioritisation of capital funds for such investment.

6.4 INTERNAL AUDIT REPORT: PARTNERSHIP WORKING

6.4.1 The Committee NOTED that internal audit had assessed the arrangements in place at the College to strategically manage key relationships and support effective partnership working. The Internal Auditor advised the Committee that 'moderate assurance' had been received in relation to the design and operational effectiveness of the controls in place regarding partnership working.

6.4.2 The Committee DISCUSSED the staff resources required to engage fully in partnership working, and the efforts made by the College to measure the impact of its engagement. The Head of Communications, Policy & Research advised the Committee that, in line with recommendations outlined in the report, the College would continue to develop its monitoring processes further to ensure the most effective use of its resources.

6.4.3 The Committee NOTED that it was within the remit of the External Engagement Committee to oversee arrangements relating to partnership working, on behalf of the Board. The Committee AGREED that the internal audit report should be circulated to the External Engagement Committee for review by members at its next meeting.

6.5 INTERNAL AUDIT REPORT: BUSINESS PLANNING AND PERFORMANCE MANAGEMENT

6.5.1 The Committee NOTED that internal audit had conducted a review into business planning and performance management at Edinburgh College. The Internal Auditor advised the Committee that 'moderate assurance' had been received in relation to the design and operational effectiveness of the controls in place.

6.5.2 The Committee DISCUSSED the reporting of KPIs to the Board and its sub-committees, as highlighted in the report, and the proposed reporting of KPIs as part of the 2018/19 Annual Report. The Committee Chair informed members that the Board had considered the need for end of year and in-year (quarterly) reporting of KPIs at its Board Development Day in October 2018, to allow members to consider progress towards the strategic aims of the College.

6.5.3 The Committee DISCUSSED the management of staff performance and NOTED that there was currently no formal annual review cycle in place. The Chief Operating Officer advised the Committee that the College used a system

called 'Enhance' to manage the staff appraisal process, however, this mainly applies to some Support Staff.

6.5.4 The Committee DISCUSSED the risks associated with no formal annual review process in place for Teaching Staff, and AGREED that the risks relating to staff under performance should be reviewed as a risk 'deep dive' at a future meeting.

6.6 INTERNAL AUDIT PROGRESS REPORT 2018/19

6.6.1 The Committee NOTED a summary of internal audit activity during the academic year 2018/19 (to date), which included details on the reviews planned for the remainder of the academic year.

6.6.2 The Committee welcomed the report and NOTED that progress relating to individual recommendations outlined by the Internal Auditor, under Minutes 6.1 to 6.5, would be monitored through the Audit Recommendation Summary Report.

6.6.3 The Committee NOTED that, in response to a previous request by the members, the management responses to individual audit actions were much more succinct, and would support improved monitoring going forward.

6.7 DRAFT INTERNAL AUDIT PLAN 2019/20

6.7.1 The Committee NOTED the Draft Internal Audit Plan 2019/20, as presented by BDO.

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

- (i) The alignment of the Internal Audit Plan with the Top Level Risk Register;
- (ii) the process undertaken to agree individual audits and their scope;
- (iii) the number of days required to deliver the programme of audits; and
- (iv) Executive Team satisfaction with the proposed Internal Audit Plan.

6.7.3 The Committee APPROVED the Internal Audit Plan 2019/20, and welcomed the opportunity to review the outcomes of the first phase of the Plan at its next meeting.

7. RISK ASSURANCE

7.1 'THREE LINES OF DEFENCE' FRAMEWORK

7.1.1 The Committee NOTED an update on the progress of the College towards developing its risk management structures and processes to include the three lines of defence model, a well-established model which aimed to help organisations manage uncertainty and mitigate downside risks.

7.1.2 The Committee NOTED that the Senior Management Team had considered the 'three lines of defence' model in March 2019, and had identified assurances for each level. The Chief Operating Officer advised the Committee that he had also met with the Committee Chair and the Principal to discuss what further information was required by the Committee for assurance purposes.

7.1.3 The Committee NOTED a proposed Three Lines of Defence Framework, and DISCUSSED the following points:

- (i) The support provided by the internal auditors to develop a model using existing templates;
- (ii) the use of the Framework as an assurance map to support risk management;
- (iii) considerations around the scope and frequency of the assurances indicated;
- (iv) the role of the Framework as evidence for the College's end of year assurance statement; and
- (v) the current arrangements and models currently employed across the public sector.

7.1.4 The Committee AGREED that the Three Lines of Defence Framework should also align to the College's Top Level Risk Register, to ensure appropriate linkages were maintained.

7.1.5 The Committee APPROVED the Three Lines of Defence Framework, and AGREED that the Framework should be reviewed by the Committee on an annual basis.

7.2 RISK MANAGEMENT REPORT

7.2.1 The Committee NOTED a risk management report as provided by the Head of Communications, Policy & Research, which highlighted progress in relation to risk management and reporting since the last meeting of the Committee in February 2019.

7.2.2 The Committee NOTED that the Risk Management and Assurance Group (RMAG), which reports to the Audit & Risk Assurance Committee, had met on 21 March 2019 and agreed that the top three risks to the College were: (i) *Risk 26; Impacts of Brexit on College Business*; (ii) *Risk 24; Cyber security breaches within the College*; (iii) *Risk 33; Insufficient Funding to Cover Cost of Living & Employer Pension Contribution Increases*.

7.2.3 The Committee NOTED the continued lack of investment in IT infrastructure and innovation at the College, which was in large part due to SFC capital priorities being focused on building and condition survey work. The Head of Communications, Policy & Research advised the Committee that in recognition of this the RMAG had agreed that *Risk 34; College IT Infrastructure Ageing and Not Meeting Future Business Needs* would be transferred from the IT Operational Risk Register to the Top Level Risk Register.

7.3 RISK DEEP DIVE: FINANCIAL SUSTAINABILITY

7.3.1 The Committee NOTED that the Policy & Resources Committee, at its meeting on 21 May, had considered a five years financial forecast - in order to assess the College's future financial position. The Chief Operating Officer provided a brief presentation to the Committee on the key risks associated with the College's financial sustainability.

7.3.2 The Committee NOTED that the financial forecast was based against assumptions outlined by the SFC, and highlighted what was required in order to achieve a break-even underlying operating position.

7.3.3 The Committee DISCUSSED the following points in relation to the financial forecast:

- (i) The financial impact of removal of the debt servicing support;
- (ii) the repayment of £2.9m to the SFC for advanced voluntary severance funding from 2018/19 to 2020/21, given the changes in financial assumptions since 2015/16;
- (iii) the significant saving made by the College over recent years, in comparison with other large institutions in the sector;
- (iv) the underlying operating surplus for the years 2019/20 to 2022/23, future cost reductions required to achieve this, and the forecast levels of cash flow;
- (v) the proportion of total expenditure in staff costs, and the financial impact of recent national pay awards; and
- (vi) the financial sustainability of the college sector going forward, and the potential impact of Brexit.

7.3.4 The Committee NOTED that the Policy & Resources Committee had agreed that financial forecasting should be shared with the SFC, and a case outlined to lessen the financial impact of the loan repayment and re-consideration of removal of debt servicing support.

7.3.5 The Committee NOTED that the College Budget 2019/20 would be presented to the Board on 18 June for approval.

The Chief Operating Officer left the meeting

8 EXTERNAL AUDIT

8.1 GOOD PRACTICE GUIDANCE: GOVERNANCE STATEMENTS

8.1.1 The Committee NOTED that Audit Scotland had produced a good practice note on improving the quality of college annual report and accounts. The External Auditor advised the Committee that colleges should use the guidance note to assess and enhance their own governance statements going forward.

8.1.2 The Committee NOTED examples presented in the guidance note which were taken from governance statements in colleges' 2017/18 annual report and

accounts. The External Auditor highlighted that a number of examples provided were taken from the 2017/18 Governance Statement submitted by Edinburgh College.

8.1.3 The Committee DISCUSSED the guidance note, and AGREED that it should be circulated to all members for information.

8.2 EDINBURGH COLLEGE ANNUAL AUDIT PLAN 2018/19

8.2.1 The Committee NOTED an Annual Audit Plan 2018/19, as presented by Audit Scotland, which outlined the planned scope and timing of the audit. The External Auditor advised the Committee that the audit plan would be carried out in accordance with International Standards on Auditing, the Code of Audit Practice and other relevant guidance.

8.2.2 The Committee NOTED that the plan identified audit work to provide an opinion on the financial statements and related matters, and meet the requirements of a public sector audit. The External Auditor informed the Committee that the wide scope of such public audits allowed conclusions to be drawn on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

8.2.3 The Committee DISCUSSED the Annual Audit Plan 2018/19, and AGREED it was content with the scope and timings of the planned audit work.

8.3 EDINBURGH COLLEGE MANAGEMENT REPORT 2018/19

8.3.1 The Committee NOTED a summary of the key issues identified as part of the interim audit work carried out at Edinburgh College. The External Auditors advised the Committee that the audit work allowed Audit Scotland to update its understanding of key controls within financial systems at the college, and to gain assurance over the processes and systems used in preparing the financial statements.

8.3.2 The Committee DISCUSSED the Management Report 2018/19 and NOTED that no significant concerns had been identified by Audit Scotland.

9 HORIZON SCANNING REPORT

9.1 The Committee NOTED a Horizon Scanning Report which outlined major political, economic, social, technological, legal and/or environmental developments that could impact on the five strategic plan aims of the College. The Head of Communications, Policy and Research advised the Committee that further to this, the report also indicated what the College was doing to address these impacts.

9.2 The Committee NOTED that the final edition of the report presented to the Board on 18 June would include reference to documents published by Audit Scotland, including the *Scotland's Colleges Report 2019*, and the new good practice guidance on college annual reports and accounts relating to governance statements.

- 9.3 The Committee DISCUSSED the Horizon Scanning Report and NOTED that the report's cover sheet would in future be used to highlight specific points of interest for individual committees of the Board. The Committee welcomed this development and AGREED that key items included in the Horizon Scanning Report should be considered for future risk 'deep dive' items going forward.

10 REVIEW OF COMMITTEE OPERATION 2018/19

- 10.1.1 The Committee NOTED that at the end of each academic year the Committee is required to review its annual activity. The Committee Chair advised members that the first section of the review was based on a self-evaluation checklist within the Scottish Government's Audit Committee Handbook, whilst the second section focused on committee alignment with the key principles of the Code of Good Governance.
- 10.1.2 The Committee AGREED its operation and compliance with its terms of reference, as outlined in 'Part 1' of the review form.
- 10.1.3 The Committee, in line with Part 2' of the review form, DISCUSSED its function in relation to its performance monitoring, strategic roles, decision-making and relationships. The Committee AGREED that, as at least one member sat on each of the Board's business committees, it would be appropriate to include a standing item that would allow members to verbally feedback on any relevant matters to the Audit & Risk Assurance Committee.
- 10.1.4 The Committee AGREED that the Committee Chair and Clerk to the Board would finalise the evaluation form, prior to its recirculation to Committee members.

11 ANY OTHER COMPETENT BUSINESS

11.1 AUDIT & RISK ASSURANCE COMMITTEE BUSINESS PLANNER

- 11.1.1 The Committee NOTED an overview of upcoming agenda items to be considered by the Audit & Risk Assurance Committee at its next three scheduled meetings.

11.2 NATIONAL FRAUD INITIATIVE SELF-APPRAISAL CHECKLIST

- 11.2.1 The Committee NOTED that the National Fraud Initiative (NFI) in Scotland was a counter-fraud exercise led by Audit Scotland, which used computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, that might expose the existence of fraud or error. The Head of Finance informed the Committee that the College was in the process of completing a self-appraisal checklist as part of the counter-fraud exercise.

- 11.2.2 The Committee NOTED that, if required, any matters arising from the NFI self-appraisal process would be feedback to the Audit & Risk Assurance Committee.

12 FOR INFORMATION

12.1 DATA BREACH INCIDENT UPDATE

- 12.1.1 The Committee NOTED that no data breach incident had taken place at the college during March to May 2019.

13 DATE OF NEXT MEETING

- 13.1 To be confirmed.

Meeting closed at 17:30