



## **AUDIT & RISK ASSURANCE COMMITTEE**

### **MINUTES OF MEETING OF 30 NOVEMBER 2015**

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

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

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

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

- 1.1 The Committee Chair welcomed Fiona Riddoch, a newly appointed Non-Executive Member of the Board.
- 1.2 The Committee Chair welcomed Ian Doig, an experienced non-executive director and former Director of CIPFA (Scotland), as a Co-opted Member of the Committee.
- 1.3 The Committee Chair thanked Robin Stimpson for his contribution to the Committee as a member, prior to the reconfiguration of Board committees' membership in June 2015.

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

- 2.1 None.

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

- 3.1 The Committee APPROVED the minutes from the meeting of 03 June 2015.

#### **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 a draft Annual Report and Financial Statements for the period ended 31 July 2015, a letter of representation, and an Annual Audit Report submitted by the College's External Auditors.
- 5.1.2 The Committee NOTED amendments to the Annual Report and Financial Statements to reflect the outcome of the College's FES Return, following the disallowance of excess additionality SUMs by the SFC.
- 5.1.3 The Committee DISCUSSED the impact of the disallowance of SUMs on the signing off of the College Accounts, and the views of the External Auditors. The External Auditor would discuss with the SFC what further assurances could be provided for audit purposes.
- 5.1.4 The Committee NOTED an overview of the External Auditor's Annual Audit Report. The External Auditor commended the Finance Team for capturing the financial complexities of the College within the Accounts. The Committee NOTED that the External Auditor was content with Accounts, although it was highlighted that the report had been drafted in-advance of matters arising from the FES Return, therefore further adjustments and audit work might subsequently be required.

### 5.2 INTERNAL CONTROL ASSURANCE STATEMENT

- 5.2.1 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.
- 5.2.2 The Committee NOTED that this was the first time the College had conducted such an internal control exercise since the ONS reclassification. The Committee welcomed the Statements and the level of detail provided.
- 5.2.3 The Committee NOTED the Chief Operating Officer's Statement, which emphasised the financial impact of net depreciation on the College, particularly in instances where activity/income targets were not achieved. The Chief Operating Officer also drew the Committee's attention towards the requirements of the College to enhance its data protection and information security activities, once appropriate funding was identified.
- 5.2.4 The Committee DISCUSSED the following matters relating to key points highlighted in the assurance statements:
  - (i) the presentation of financial information to the Board, and the measures in-place to monitor the accuracy such information;

- (ii) the importance of accurate financial forecasting, and the need for a more accuracy and transparent approach;
- (iii) budget holder accountability, and the need to include middle managers in the financial management of the College;
- (iv) additional budget holder training, and the importance of a realistic approach towards financial budgeting.

5.2.5 The Committee AGREED that the internal control frameworks completed by the Executive Team should be held by the College, for future reference.

### 5.3 COMPLIANCE WITH THE CODE OF GOOD GOVERNANCE

5.3.1 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').

5.3.2 The Committee NOTED assurances that the College's governance arrangements were compliant overall, and there had been review and improvements over the past year. 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.

5.3.3 The Committee AGREED that, following the review of information presented under minutes 5.1, 5.2 and 5.3, it was content to recommend the Annual Report and Financial Statements (for 2014/15) to the Board for approval – subject to finalisation of any adjustments and outstanding audit work.

## 6 DELEGATED FINANCIAL AUTHORITY

6.1 The Committee NOTED proposed amendments to delegated financial authority limits put forward by the External Engagement Committee, in-light of changes to the Board's committee structure and business undertaken by the College in 2014/15.

6.2 The Committee DISCUSSED the amendments and AGREED that the proposed limits provided an appropriate level of authority and provision.

6.3 The Committee APPROVED the revised delegated financial authority limits.

## 7 RISK ASSURANCE

### 7.1 RISK MANAGEMENT UPDATE

7.1.1 The Committee NOTED the Top Risk Register and a number of revisions following recommendations from by the Board, the Executive Team and the Risk Management Group.

7.1.2 The Committee DISCUSSED the removal of TR7; 'failure to attain Highly Trusted Sponsor Status' from the Top Risk Register due to the

low number of student associated with the HTS status. The Committee NOTED that this risk had been subsumed within TR6; 'failure to achieve commercial and international income targets'.

7.1.3 The Committee DISCUSSED amendments to the mitigated risk score for TR8; 'failure to achieve institutional sustainability', on the basis of current challenges in achieving planned activity/income. The Chief Operating Officer informed the Committee of the College's move to Priority Based Budgeting (PBB), in order to achieve sustainability in the future, and outlined the process for its implementation.

7.1.4 The Committee DISCUSSED culture change within the College, relating to PBB and the wider awareness of the organisation's financial situation, and AGREED that the Chief Operating Officer should introduce such a risk to the Top Risk Register.

## 7.2 ENROLMENTS, SUMS AND CREDITS 2014/15 AND 2015/16

7.2.1 The Committee NOTED a shortfall in student numbers, credits and the financial impacts of these matters on the College.

7.2.2 The Committee NOTED that in recent weeks the College had been challenged by the SFC in-relation to its SUM's claim for 2014/15. The Principal informed the Committee that the College had failed to take account of last year's SFC Guidelines which changed the amount of learning activity that could be claimed for each student, and had been asked to reduce its SUM's claim for 2014/15 from 254,687 to 249,833. Further to this, the Committee NOTED that the College would be required to re-adjust and reduce the basis of its claim for 2015/16.

7.2.3 The Committee DISCUSSED the difficult position arising from the shortfall, and the need for SFC and Scottish Government support, given the College's financial status. The Principal confirmed that a paper would be presented to the Board of 08 December 2015, outlining a proposed way forward for the College.

7.2.4 The Committee NOTED that the Principal had commenced an investigation into matters surrounding the shortfall, and it was AGREED that a subsequent report would be presented to the next meeting of the Committee.

## 7.3 IT FUNCTIONS, BUSINESS CONTINUITY AND SECURITY

### ***Terry Trundley, Head of IT/ MIS, joined the meeting***

7.3.1 The Committee NOTED a report from the Head of IT/MIS on IT Functions, Business Continuity and Security across the College.

7.3.2 The Committee NOTED the Head of IT/MIS's concerns relating to the removal of capital funding and the lack of skilled resources within the Department. The Committee NOTED the IT Teams progress in implementing the '2013-18 IT Digital Roadmap' and the 'Business Continuity/Disaster Recovery Plan', and the status of risks associated with these areas.

- 7.3.3 The Committee DISCUSSED issues faced by the Department in recruiting and retaining of appropriately qualified network engineers and programmers. The Committee NOTED that the College was vulnerable to the loss of experienced staff members, and emphasised the importance of maintaining a disciplined approach to record keeping, for continuity purposes.
- 7.3.4 The Committee DISCUSSED the benefits of 'shared services' as a means of reducing the risk of systems outage, enabling the College to keep up-to-date with technological advances, and in providing the College with a more flexible workforce.
- 7.3.5 The Committee NOTED that College funds would be prioritised in IT/MIS to maintain learning provisions, the College's core business, even though capital funding remained limited.

***Terry Trundley left the meeting***

## **8 INTERNAL AUDIT**

### **8.1 NON-SFC INCOME REPORT**

- 8.1.1 The Committee NOTED the findings of an internal audit report into the College's arrangements for maximising non-SFC income. The Internal Auditor informed the Committee that arrangements were appropriate; however, there remained scope for improvement in the setting of targets and the linkage between College strategies.
- 8.1.2 The Committee DISCUSSED the management response to the audit report and suggested that an appropriate action plan should be drafted to implement the proposed developments.
- 8.1.3 The Committee AGREED that the audit report should be considered by the Commercial & International Sub-Group, specifically the observations and risks relating to the 'inconsistency across strategies'.

### **8.2 WORKFORCE MANAGEMENT REPORT**

- 8.2.1 The Committee NOTED an internal audit report into the College's voluntary severance (VS) scheme and the extent to which it linked to the workforce needs of the College. The Internal Auditor informed the Committee that robust controls were in-place to ensure only non-essential staff were put through its severance scheme.
- 8.2.2 The Committee NOTED that the VS scheme was applied fairly to all applicants and there were no preferential severance scheme packages for senior staff.
- 8.2.3 The Committee NOTED three areas where further improvements could be made, two of which related to workforce management and one related to the impact of VS on the College's performance. The

Committee NOTED the management response to recommendations relating to the overall Workforce Plan.

8.2.4 The Committee welcomed the report, especially in-light of recent concerns around remuneration and governance arrangements within the college sector.

### 8.3 REVIEW OF 2014/15 SUMs RETURN

8.3.1 The Committee NOTED that an internal audit report into the College's procedures and controls over the preparation of the 2014/15 SUMs Return, together with the results of an audit test to ensure the accurate calculation of the Return.

8.3.2 The Committee NOTED that due to inaccuracies within the Return, as identified by the SFC, the College reviewed its data and submitted a revised Return. The Internal Auditor informed the Committee that additional audit work was subsequently performed on the revised data.

8.3.3 The Committee NOTED assurances from the Internal Auditor that the SUMs count for the College had not been materially misstated. The Committee NOTED that controls over the collection of data and the preparation of the SUMs Return required further improvement to avoid recurrence of the issues encountered in 2014/15.

8.3.4 The Committee DISCUSSED the internal audit report and the need for the College to improve its student activity data. The Committee also DISCUSSED the inherent complications within the current FE funding system and the guidance received by colleges.

8.3.5 The Committee NOTED the broad focus of the internal audit report, and AGREED that the Internal Auditors should provide the Executive with a more detailed 'scope', in order to maximise the benefit of each audit report.

### 8.4 SUMMARY OF AUDIT RECOMMENDATIONS

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

### 8.5 INTERNAL AUDIT ANNUAL REPORT 2014/15

8.5.1 The Committee NOTED the Internal Audit Annual Report 2014/15, and were content with the internal cover achieved.

### 8.6 INTERNAL AUDIT PLAN 2015/16

8.6.1 The Committee NOTED an Internal Audit Plan for 2015/16, which had been designed to provide assurances on the effective management of the College's key risks.

- 8.6.2 The Committee NOTED a timetable for audit work in 2015/16, and the Internal Auditor provided an overview of the proposed range of audit reports.
- 8.6.3 The Committee DISCUSSED the following matters relating to the Internal Audit Plan 2015/16:
- (i) the shaping of internal audits to focus on key areas, including 'culture';
  - (ii) the alignment of the internal audit resource with the internal audit framework;
  - (iii) the need for both internal and external auditors to liaise during the annual audit planning process;
  - (iv) the need for a degree of focus on the implementation of PBB and ongoing curriculum planning;
  - (v) the removal of 'low risk' audits from the year plan;
  - (vi) the fact that no contingency days were currently planned.
- 8.6.4 The Committee AGREED that the Internal Auditors would reconsider the Plan, to include contingency days and audit days focussing on PBB and curriculum planning. The Committee AGREED that the revised report would be presented to the next meeting of the Committee.

## **9 REPORTING TO BOARD**

### **9.1 CHAIR'S ANNUAL REPORT TO THE BOARD**

- 9.1.1 The Committee NOTED a draft Audit & Risk Assurance Committee Annual Report prepared by the Committee Chair.
- 9.1.2 The Committee NOTED that the Annual Report had been developed substantially by the Committee Chair, to provide assurances across a number of key areas.
- 9.1.3 The Committee AGREED that the annual report should highlight the following 'challenges' to the Board:
- (i) the need to develop student recruitment processes such that credit targets are met;
  - (ii) the importance of greater financial controls and forecasting to meeting the needs of budgetary challenges; and the need to implement Priority Based Budgeting;
  - (iii) the need to continue to develop the College's curriculum, commercial and operational activities and its estates to create a more financial sustainable organisation.
- 9.1.4 The Committee AGREED that the Annual Report would be presented to the Board with the Annual Accounts.

## **10 ANY OTHER COMPETENT BUSINESS**

### **10.1 AUDIT SCOTLAND STATUTORY CHARGES 2015/16**

10.1.1 The Committee NOTED a letter from Audit Scotland to the Principal of Edinburgh College regarding the statutory charges for the 2015/16 audit year.

10.1.2 The Committee NOTED the indicative fee range which will apply to the College for the 2015/16 audit year.

### **10.2 HORIZON SCANNING**

10.2.1 The Committee NOTED a suggestion from its Co-opted Member to introduce an item to the agenda focussing on upcoming matters for the College and the sector.

10.2.2 The Committee AGREED to include a 'Horizon Scanning' item on future agendas.

## **11 DATE OF NEXT MEETING**

The next meeting will take place on 25 February at 16:00 in the Boardroom, Milton Road Campus.

***The meeting closed at 18:30***