

**Minute of the Audit Committee Meeting
held in the Boardroom, Kilmarnock Campus
on Tuesday 17 June 2014 at 5.30 pm**

Present: Alan Walker (Chair)
Nicki Beveridge
Stephen Greenwood
Barbara Graham
Gordon James

In attendance: Michael Breen
Chris Brown (Scott-Moncrieff)
Brendan Ferguson (Minutes)
Alistair Gordon

1 Welcome and Introductions

The Chair welcomed everyone to the meeting.

2 Apologies

Apologies were received from Bill Costley, Jane McKie, Jackie Galbraith and Bernadette McGuire.

3 Declarations of Interest

There were no declarations of interest.

4 Minute of the Previous Meeting held on 25 March 2014 (*Paper 1*)

The minute was approved as a correct record.

Proposed: Barbara Graham
Seconded: Stephen Greenwood

5 Matters Arising

Item 6, Page 3: M Breen reported that a revised operational model for child-care support would be operated during 2014/15 and subsequently be reviewed at the end of that period. The new operational model has also been informed by suggestions made by both the Ayr and Kilwinning campus nursery staff.

6 2014/15 Ayrshire College Risk Register at May 2014 (Paper 5)

A Gordon introduced the Risk Register and reported that there had been no increases or decreases in the identified risks since the previous February 2014 version of the Risk Register. A Gordon took the Committee through the register, highlighting the red risks. In particular, A Gordon highlighted FIN6 in relation to ONS and stated that a new element to this risk, identified as the “draft addendum to the Financial Regulations” (as discussed and minuted at a later point of this meeting) had helped ensure that this risk had been retained in the red zone, despite the successful establishment of the Ayrshire College Foundation.

M Breen added that this version of the Risk Register represented the first version in Financial Year 2014/15 and that it would be very useful, given the excellent progress made on the development of the risk management over the previous year, to diary in a development session with the full Board of Management, potentially to be led by Tom Wallace or as has been suggested in the Scott Moncrieff report, an external facilitator. M Breen went on to say that the matters identified in the Internal Audit Report on Risk Management to be discussed later in this Agenda would be taken forward in the 2014/15 Risk Register.

Members noted the above report and a number of questions were asked and satisfactory answers received. A Walker noted that the Risk Register had improved tremendously in terms of the identification, recording, reporting and presentation of risks since the first Register for Ayrshire College was prepared in August 2013. G James echoed these comments but highlighted a number of considerations to be factored into any development session including the “targeted” risk position.

The Chair, on behalf of the Committee, congratulated M Breen, A Gordon and all staff who have been involved in the development of this document over the previous 10 months. The Chair added that the document was still rather cautious in the recording of the identified risks, but that this was right and proper given the need to see out the first year of operation as Ayrshire College. Chris Brown, representing Scott Moncrieff (the College’s internal auditors) commended the presentation of the Risk Register as comprehensible and easy to understand.

Subject to ongoing review and amendment where appropriate, the Ayrshire College Risk Register (V1), as at May 2014, was approved.

The Secretary will contact Tom Wallace, Chair of the Finance Committee, in the first instance and seek to arrange a Board Development Workshop on the subject of Ayrshire College Risk Management at an early opportunity in 2014/15.

7 Internal Audit Report on Risk Management (*Paper 2*)

C Brown (Scott Moncrieff) introduced the Internal Audit Report of Risk Management and stated that in all of the internal audits carried out by Scott Moncrieff over 2013/14, the reports had sought to reflect that Ayrshire College was going through a period of establishment as a new entity. This was also the case with the Risk Management Report, but that should not deflect from the fact that this was a very positive report. Although there were issues raised, these were raised with the intention of supporting the College in moving the risk management process forward through the ongoing development of best practice.

C Brown then went through the recommendations presented for consideration and raised, in particular, the concept of “risk appetite”. This, in C Brown’s view, was often a difficult concept in the Public Sector as it involved the appetite for entrepreneurial risk, an issue not easy to grasp when dealing with public funding. Nevertheless, in order to progress in meeting the 7 star vision of Ayrshire College a certain amount of entrepreneurial risk was inevitable, and the College would be well advised to consider the level of risk appetite it was prepared to tolerate in seeking to achieve that objective. During discussion on this matter, the Chair raised the question of whether it would be the role of this Committee to challenge the College on the level of risk appetite being exhibited. C Brown responded that, in his view, such a position would be entirely appropriate.

M Breen, in welcoming the above report, stated that he was supportive of the direction that it took and that it would be appropriate to hold a workshop on the issues it raised. The bar had been set high in terms of the vision of achieving the status of a 7 star college and it was inevitable that risks would accompany the pursuit of this objective. Triangulation, training and the build-up of experience and knowledge would all be part of the development of the College’s understanding of risk and the consequent assessment of risk exposure. A developmental opportunity now exists, and in taking that opportunity it was important to recognise that Ayrshire College was still developing as an organisation and that increasing our understanding and awareness of risk management was an important part of the developmental process.

The Committee welcomed the Internal Audit Report on Risk Management within the College and recognised it as an excellent report at this stage of the College’s development. M Breen confirmed that the actions identified would be undertaken and, in addition, would be discussed as part of the Board Development Workshop identified in Item 6 above.

In line with the action identified in item 6 above, Scott Moncrieff may be invited to attend and contribute to the future Board Development Workshop on Risk Management.

8 Internal Audit Annual Report 2013/14 (Paper 3)

C Brown (Scott Moncrieff) took the Committee through the report and stated that it provided an overall opinion from the Auditors in terms of the operational environment of the three areas audited. C Brown continued that each of the three audits had returned very positive reports and stated that in his experience it was very unusual that three such audits would return no red risks and so few amber ones. This demonstrates a very clear and positive audit opinion and, while there is never a 100% guarantee, it was clear that systems were in place and that they demonstrate value for money and propriety. C Brown finished by saying that the 2013/14 internal audit programme of Ayrshire College had been the most positive that he could recall in his experience.

The Committee listened to the above report with interest and welcomed the Auditor's views on the clear efficacy of the systems audited. The Chair added that such a transitional year had brought significant challenges and the College and all involved in the areas audited should be congratulated on their achievements and encouraged to maintain the high level of governance demonstrated. A number of comments to aid clarity were made by members in relation to the presentation of the reports and C Brown stated that he would take these away for feedback and for implementation by the Audit Team.

The above report was noted and welcomed by the Committee who congratulated all staff involved in the areas audited for their achievements.

9 Internal Audit Plan: Update to 31 March 2015 (Paper 4)

C Brown introduced the above plan by stating that despite the outstanding internal audit reports received by the College in 2013/14, it was in fact healthy to have occasional red issues highlighted by auditors as that indicated areas where improvements could be made. The College should therefore expect to receive some red assessments as a result of future audits, but should look on these as demonstrating the value of internal audit rather than serious failures of process. The suggested timetable for the 2014/15 College year was as listed in the above plan, which had been reached following discussions with the Executive Management Team of the College, a review of the College Risk Register and knowledge of the FE sector. The strategic Internal Audit Plan for 2014/15 was based on an assessment of the current internal audit requirements of the College, including those audit area reviews carried forward from the new College's year end of 31 March. The Plan therefore covers the 12 month period to 31 March 2015.

M Breen then listed the proposals and set them in the context of why these particular areas had been chosen for audit. In particular, M Breen noted the following:

- WSUMS – the funding received from SFC for delivery represents the largest income of the College and an external audit of this area is a SFC mandatory requirement.
- Education Contracts – The funding received from Education Contracts represents the second highest income budget for the College and, by virtue of its nature, is a complex area of high potential risk. The College operates a number of contracts including Skills Development Scotland (SDS) and various industry bodies.
- Curriculum Area Review – the proposed review will cover the provision and scope of Extended Learning Support (ELS) by the College. Amongst other factors, Key Performance Indicators (KPIs) within the Outcome Agreement are predicated on the identification and thereby meeting the needs of the students with support requirements.
- Asset Management – a review of the procedures, controls and recording (including depreciation) of major assets of the College. This is a very large area and the audit was specifically requested by the Finance Committee. Because of the size and complexity of this undertaking M Breen cautioned that the time allocated in the above plan may have to be revisited. M Breen also explained that this area links with the External Auditor's responsibilities in relation to the annual audit process for the statutory accounts.

M Breen added that the above internal audits proposed to Members represent very high profile areas of College activity and that is why they have been suggested / targeted. It was the intention that the audit reports on these areas would demonstrate areas of strength and areas where operational improvements could be made.

A number of questions were asked by members and satisfactory answers received. In particular the Chair asked why the New Build Kilmarnock Campus Project had not been included in the Internal Audit Plan for the forthcoming year. M Breen replied that the responsibility for the Project delivery currently lies with the C3 Consortium under the Standard Form Project Agreement (the contract) now that the Project has reached financial close and that will be the case until the project handover date, currently scheduled for May 2016. M Breen noted that the College has structures in place to work within the provisions of the contract e.g. Project Board, Project Team and the recruitment of a Clerk of Works. M Breen also noted the complexity of this Project as well as the gateway reviews and external verification provided by both SFC and SFT during the completion of each phase of the Project.

C Brown added, from the internal auditor's perspective, that the College would have some responsibility for ensuring that it was getting what it had contracted for, but care must be taken to ensure that there was no duplication of responsibilities which were being undertaken elsewhere e.g. Estates and New Campus Development Committee and their responsibility for management of risk. It was agreed that this would be discussed further with the Estates and New Campus Development Committee, with care being taken to

ensure that the Terms of Reference of the two Committees remain appropriate and do not overlap.

The Internal Audit Plan March 2014 to March 2015 was noted and approved.

The Chair of the Audit Committee consider along with the Chair of the Estates and New Campus Development Committee the most appropriate way for the Audit Committee to receive assurances in relation to the risks associated with the Kilmarnock Campus New Build Project.

10 Scottish Colleges Insurance Arrangements (*Paper 6*) and Letter from Lawrence Howells re Addendum to the Financial Memorandum with SFC (*Presentation included in the record of the meeting*)

The above two items were taken together on the agenda as they were co-related, both resulting from the recent ONS re-classification and the content of the Public Sector Finance Manual (PSFM).

In relation to the insurance arrangements, A Gordon reported that the briefing note from Colleges Scotland sets out some of the key points in relation to self-insurance. A Gordon stated that Ayrshire College currently paid an annual insurance of circa £100K, a sum which covered all insurance perils including building cover, personal claims and personal indemnities. Under the requirements of the PSFM, public bodies are required to self-insure. Self-insurance means that the relevant body is restricted to taking out only those insurance policies required by law e.g. engineering inspection and 3rd party motor, insurance integral to a project, condition of lease and income generation. This change in status would become effective from 1 August 2015. At the invitation of the SFC, Colleges Scotland have been asked to prepare a business case for exemption from the self-insurance requirement and this was currently under preparation.

M Breen highlighted, as an example of the implications of self-insurance, that damage to or destruction of a building at the Ayr Campus would no longer be covered by insurance. The Kilmarnock and Kilwinning Campuses would, however, be covered as a result of the contract requirements i.e. the PFI contract at Kilwinning and the New Build Project at Kilmarnock. This self-insurance requirement would significantly change the risk profile of the College and take elements of it out of the control of Ayrshire College. In addition, there would be implications for the indemnity insurance for members of the Board of Management.

M Breen then made a short presentation on the implications contained within the draft Addendum to the Financial Memorandum prepared by the SFC and currently out for consultation. This draft addendum, again prepared in response to the content of the PSFM, sets out the limitations to be imposed on the College in terms of permitted spending without the explicit authorisation of the SFC. The limits proposed were extremely restrictive in relation to the overall budget of the College and would severely limit the ability of the College to manage its

operations in an efficient and effective manner. M Breen added that there had been a lively discussion on these matters at the recent meeting of the Finance Committee.

Members noted their concerns on the matters raised above and considered that the proposals relating to both insurance arrangements and the addendum contained the potential to be damaging to both the prospects of Ayrshire College and the newly regionalised sector as a whole. The matters were discussed at some length and members found it difficult to comprehend that the Scottish Government would undertake the College regionalisation programme and implement the new Post-16 Education Act, only to restrict the operational abilities of the new Colleges with such a restrictive bureaucracy. The Committee felt that a collective and robust response both from Colleges Scotland and the Regional Chairs was required to both of these proposals, outlining the restrictions being imposed on the operational management of the College Sector and the significantly increased exposure to risk that would result.

The Committee noted their concern and commended to the Board of Management its support for the provision of a robust response being provided by Colleges Scotland and the Regional Chairs.

11 Internal Audit Services post 31 March 2015

The Committee noted a verbal report from M Breen that a paper would be provided to the next meeting of the Committee proposing how the College proceed with the tendering process for the appointment of Internal Auditors post 31 March 2015.

12 Date of Next Meeting: Tuesday 9 September 2014, Kilmarnock Campus.