

**Minute of the Audit Committee Meeting
held in Boardroom, Kilmarnock Campus
on Thursday 21 November 2013
at 5.00 pm**

Present: Gordon James (Vice Chair)
Barbara Graham
Stephen Greenwood
Nicki Beveridge
Bill Costley

In attendance: Michael Breen
Alistair Gordon
Bernadette McGuire
Jackie Galbraith
Jennifer Alexander (Scott Moncrieff)
David Watt (KPMG)
Cathie Wyllie (Henderson Loggie)
Angela Scoular (Minutes)

1 Welcome and Introductions

G James welcomed everyone to the second meeting of the Audit Committee. In particular, G James welcomed both N Beveridge and B Costley to their first Audit Committee meeting.

G James asked all present to give a brief introduction of themselves and their role.

2 Apologies

Apologies were received from A Walker (Chair), J McKie, C Brown (Scott Moncrieff), B Curran (KPMG) and S Inglis (Henderson Loggie).

3 Declarations of Interest

There were no declarations of interest.

4 Minute of the Previous Meeting - 24 September 2013

The minute was agreed as an accurate record apart from one minor amendment. The start time of the meeting had been 5.00 pm and not 5.30 pm as noted. The minute was amended accordingly.

5 Matters Arising

Governance Arrangements – Audit Committee Terms of Reference

M Breen advised that the Committee Terms of Reference had been amended to reflect the comments made at the previous meeting.

Governance Arrangements – Closure of Financial Year 2012/13

M Breen stated that he had worked with both A Walker and T Wallace to agree appropriate wording in respect of closing the 2012/13 Financial Year and this wording was reflected in the papers that were presented to the Finance Committee on 7 November and also to the Audit Committee in the agenda and papers presented.

Insurance

A Gordon confirmed he had spoken with Zurich Insurance to clarify what arrangements were in place for the former James Watt College Board Members. A Gordon explained that all members were covered by the two policies that Zurich Insurance have. West College Scotland have adopted a policy covering a five year period whereas Ayrshire College can renew one year at a time.

Ayrshire College Risk Register

M Breen advised that he would update members on this item within the main agenda.

Ayr College

6 2012-13 Board of Management Report and Financial Statements

A Gordon provided the background to Paper 2 and stated that this paper was based on one presented to the Finance Committee on 7 November 2013.

A Gordon explained that the Statutory 2012/13 Annual Financial Statements are based on the Ayr College Management Accounts which were presented to the Finance Committee at their meeting on 19 September 2013, adjusted for year-end requirements. The Financial Statements have been submitted to KPMG for external audit.

A Gordon noted that the draft Ayr College Financial Statements show:

- Income for the year of £14,934,000.
- An operating surplus for the year of £86,000.
- Net assets of £24,717,000.

A Gordon highlighted that the Ayr College Strathclyde Pension Fund position, valued as at 31 July 2013 by Hymans Robertson, resulted in a reduction of £259,000 in the net pension deficit.

In relation to Land and Buildings, A Gordon explained that a revaluation was carried out by the District Valuer as at July 2013 and this has resulted in a net increase in valuation of £8.75m primarily in respect of the main Ayr Campus.

A Gordon noted that Ayr College land and buildings were last revalued in 1999, although the Riverside and Aero buildings have been built since then and have been carried in previous financial statements at depreciated cost. The increase in value arising from the revaluation represents an uplift of approximately 50% overall to the carrying value of the Ayr College premises.

A Gordon also noted that, within these figures, the surplus land at Newtonhead, Ayr, has been valued at £375,000. These premises were previously shown in the Ayr College Management Accounts at a net book value of £121,000 at July 2013 (£124,000 at July 2012 in the Financial Statements). These premises have been on the market for approximately five years with offers in the region of £1m being invited.

Given the above, advice will be sought on a potential reduction in the marketed price, with this approach to be agreed by the Estates and New Campus Development Committee in due course.

A Gordon noted that the external audit fieldwork has been completed by KPMG and a close out meeting was held with them on 22 October 2013. KPMG have confirmed that they intend to give a clean audit report.

A Gordon noted that D Watt from KPMG was also present at the meeting to confirm their view on the Financial Statements and the external audit process and he would also present KPMG's annual report to the meeting under Agenda Item 5(i).

G James summarised the discussion and noted the recommendation that the Audit Committee recommends approval of the 2012/13 Annual Financial Statements for Ayr College to the Board of Management at their meeting on 9 December 2013

7 2012-13 External Audit Reports

i Annual Report to BoM and Auditor General (KPMG)

G James introduced Paper 3 and asked D Watt from KPMG to take Members through the Financial Statements and the external audit processes.

D Watt advised that the Annual Audit Report presented to the committee this evening was in draft format and would be finalised and sent to SFC and Audit Scotland once the BoM have approved it at their meeting in December 2013.

D Watt took Members through the report in some detail and this included confirmation that the Financial Statements follow recommended practice with the only accounting policy change in respect of the treatment of Land and Buildings. D Watt then summarised the external audit process confirming that the key dates had been met and noting the high quality of working papers and supporting schedules which were provided.

G James stated that overall it was a very positive report.

G James, referring to the Newtonhead site, asked Members if they had any thoughts particularly in relation to the marketed price and the potential impact of ONS on the disposal of surplus land. After some discussion, it was agreed that this matter should be taken forward by the Estates and New Campus Development Committee.

ii Letter of Representation (KPMG)

D Watt introduced Paper 4 and provided some background to the requirement for the Board of Management to sign a letter of representation. D Watt advised that there was nothing contained within the letter that was not standard.

A Gordon reiterated that this is a standard letter which would be issued at the next Board of Management meeting for signature.

G James noted that both the Representation letters submitted by the External Auditors for Ayr and Kilmarnock Colleges were slightly different. D Watt explained that both letters will cover the requirements set out in their obligations but different firms take a slightly different approach.

G James noted that this item would be presented to the Board of Management at their meeting on the 9 December 2013.

iii FES/SUMs Audit (Scott Moncrieff)

J Alexander explained that Paper 5 is the certificate which is presented to SFC in relation to the completion of the 2012-13 SUMs audit. J Alexander confirmed that the certificate had been signed by Scott Moncrieff on 31 October 2013 and thereafter submitted to SFC.

J Alexander added that the more formal report would be presented to the next Audit Committee meeting in March 2014. M Breen noted that this is an important part of the External Audit process as the SUMs account for the majority of the total income of the College.

G James noted that the FES/SUMs certificate presented to the Audit Committee had been signed by the External Auditors.

iv Student Funding Audit: FE (Wylie & Bisset)

v Student Funding Audit: HE (Wylie & Bisset)

vi Student Funding Audit: EMA (Wylie & Bisset)

A Gordon, taking Papers 6, 7 and 8 together stated that separate audits of FE, HE and EMA student funding also require to be carried out for the SFC in addition to the FES/SUMs audit.

A Gordon explained that Student Funding income and expenditure are not reflected within the main Financial Statements of the College but are included as a note to the accounts due to their categorisation. A Gordon explained that no issues have been noted in relation to the distribution of student funding.

M Breen, for the purposes of completeness, noted that these audits were carried out by Wylie and Bisset and that, in his opinion, these particular audits should be carried out by either the internal or external auditors and this approach would be taken going forward in Ayrshire College.

G James noted that the Student Funding certificates presented to the Audit Committee had all been verified by the External Auditors and signed by the College.

8 2012-13 Ayr College Audit Committee Annual Report

G James advised that A Walker had drafted this report as Chair of the Audit Committee of Ayr College. M Breen added that normally only one Annual Audit Committee Report would be presented to the Board of Management in a given year, however due to the merger and timings three separate reports will be required for Financial Year 2012-13.

M Breen reminded Members that the Kilmarnock College Annual Audit Report had been presented at the last Audit Committee meeting. M Breen reminded Members that both the Ayr College and Kilmarnock College reports covered internal audit only.

M Breen explained that a further Annual Audit Committee Report would be required on the external audit processes within Ayrshire College and that he would liaise with Alan Walker on this matter prior to the Board of Management meeting in December 2013.

Some further discussion took place on the Ayr College Annual Audit Committee Report and G James noted a typographical mistake in relation to numbering. M Breen stated that this would be updated for the final version to be presented to the Board of Management.

Action: M Breen to work with A Walker to complete the Audit Committee Report for Ayrshire College in respect of the external audit processes and Annual Financial Statements for Ayr College and Kilmarnock College.

Kilmarnock College

9 2012-13 Board of Management Report and Financial Statements

A Gordon provided the background to Paper 10 and stated that this paper was based on one presented to the Finance Committee on 7 November 2013.

A Gordon explained that the Statutory 2012/13 Annual Financial Statements are based on the Kilmarnock College Management Accounts which were presented to the Finance Committee at their meeting on 19 September 2013, adjusted for year-end requirements. The Financial Statements have been submitted to Henderson Loggie for external audit.

The draft Kilmarnock Financial Statements show:

- Income for the year of £14,100,000.
- An operating surplus for the year of £481,000.
- Net assets of £16,570,000.

A Gordon explained that 2012-13 represents the second (and final) year of Henderson Loggie's appointment as External Auditor. The appointment was made by Audit Scotland and was originally for five years but this has been superseded by the merger to form Ayrshire College as from 1 August 2013.

A Gordon noted that the external fieldwork has now been completed by Henderson Loggie and the formal audit clearance was held at Kilmarnock College on 1 November 2013. Henderson Loggie have informed the College they have been pleased with the audit process this year and that there are no material matters they wish to raise.

A Gordon noted that the Kilmarnock College Strathclyde Pension Fund position, valued as at 31 July 2013 by Hymans Robertson, resulted in a reduction of £1,360,000 in the net pension deficit.

A Gordon explained that Land and Buildings were revalued by the District Valuer as at July 2013 and this resulted in a net increase in valuation of £930,000 primarily in respect of the Holehouse Road premises with all necessary adjustments included within the Statutory Accounts.

As requested by the Finance Committee, A Gordon highlighted that the disclosure in the Operating and Financial Review in the Financial Statements was updated to note that the College will be reviewing its Estates Strategy in due course, including for the Holehouse Road premises, in light of the intended move to the new Kilmarnock Campus.

A Gordon explained that C Wyllie from Henderson Loggie was present at the meeting this evening to confirm their view on the Financial Statements and the external audit process and that she would also present Henderson Loggie's Annual Report.

A Gordon, for completeness, noted that the Board of Management of Kilmarnock College and its Committees discussed in 2012 the setting up of a restricted reserve (with £900,000 of existing cash balances being ring fenced) for the new campus project. This was also discussed with the External Auditor and also reviewing SFC guidance. The Board of Management agreed, in 2012,

within the College's Management Accounts and Cash Management Strategy, to approve a designated reserve of £900,000 and transfer cash balances to reflect this. In addition, Kilmarnock Board Members have made a statement of intent in this regard within the Board of Management Annual Report.

G James summarised the discussion and noted that recommendation that the Audit Committee recommends approval of the 2012/13 Annual Financial Statements for Kilmarnock College to the Board of Management at their meeting on 9 December 2013.

10 2012-13 External Audit Reports (Henderson Loggie)

i Annual Report to BoM and Auditor General

G James asked C Wyllie from Henderson Loggie to present Paper 11, the Annual Report, to the Board of Management and Auditor General in relation to Financial Year 2012-13.

C Wyllie acknowledged that D Watt had already provided some background to the process and as such would not repeat these parts unless requested. C Wyllie advised that the Annual Audit Report presented to the committee this evening was also in draft format. C Wyllie noted only one audit adjustment which related to the reclassification of costs which were processed as new campus instead of merger and these have now been updated. C Wyllie also noted the accounting treatment in respect of the sale of the former Kilmarnock College nursery building and the position taken by both the College and the External Auditors.

C Wyllie then summarised the external audit process confirming that the key dates had been met and noting the high quality of working papers and supporting schedules which were provided. C Wyllie explained that even though Henderson Loggie would no longer be involved with Ayrshire College going forward, a number of points were noted in the report for consideration including the adoption of component accounting.

ii Letter of Representation

C Wyllie, referring to Paper 4 presented by D Watt in relation to Ayr College, also noted that the letter of representation for Kilmarnock College was considered to be standard. C Wyllie noted the addition of information in relation to a provision for European Social Fund monies received by the College in the past. A Gordon explained that the former Kilmarnock College Management Team had made a provision within the Financial Statements.

G James stated that overall this was a very positive report.

B Graham enquired whether any value should be taken into the Financial Statements for Kilmarnock College with regards to the Hill Street site in Kilmarnock which has been gifted by Diageo for the new campus project. M Breen advised that the Preferred Bidder for the project had recently been

announced but the College do not have title to the land at present and this will be registered in the New Year as part of the financial close work to complete all contract conditions.

C Wyllie confirmed that Henderson Loggie had considered this point as part of their external audit work and that the College's Solicitors had provided a letter confirming that the land had not been transferred.

G James noted that this item would be presented to the Board of Management at their meeting on the 9 December 2013.

- iii **FES/SUMs Audit**
- iv **Student Funding Audit: FE**
- v **Student Funding Audit: HE**
- vi **Student Funding Audit: EMA**

A Gordon, taking Papers 13, 14, 15 and 16 together, stated that separate audits of FE, HE and EMA student funding also require to be carried out for the SFC in addition to the FES/SUMs audit.

C Wyllie reported that these audits were all unqualified and all certificates signed and returned to the SFC.

G James thanked C Wyllie for her input and noted that the FES/SUMs certificate presented to the Audit Committee had been verified and signed by the External Auditors. In relation to the Student Funding Certificates, G James noted that the certificates presented to the Audit Committee had all been verified by the External Auditors and signed by the College.

11 Ayrshire College Risk Register (V2) at October 2013

M Breen introduced Paper 17 and explained that the Ayrshire College Risk Register had been updated at October 2013 as Version 2.

As requested by the Audit Committee at their last meeting, the areas identified as changes between versions have now been highlighted in yellow. In addition, other amendments which were discussed have been incorporated into Version 2 for further discussion/review. A Gordon then explained that a 'previous position' column had now been completed as this is Version 2.

M Breen proceeded to highlight the current position detailed within the Risk Register at October 2013.

No risks have been added or removed.

Two risk scores are shown as increasing being:

- HRW1 – Failure to nurture good employee relations
- HRW2 – Failure to recruit and retain key staff

M Breen noted that in particular the HR and Organisational Wellbeing Committee wish to review 'their' risks in more detail at their next meeting.

Three risk scores are shown as decreasing being:

FIN1 – Failure to achieve financial sustainability and embed appropriate financial decision making

FIN3 – Failure of key ICT infrastructure and College business systems to support Ayrshire College services

ENC2 – Failure to ensure service continuity due to Estates related matters

G James stated that the Risk Register is developing well.

Some discussion and questions took place around risk scoring and in particular HRW2 'failure to recruit and retain key staff'. M Breen explained that the increased scoring focused mainly on the STEM area and the difficulty to recruit and retain key staff in these disciplines due to the current market conditions. A discussion ensued around this key sector and the impact this has within the Ayrshire economy. G James requested that this risk be reviewed for Version 3 in relation to scale/impact.

S Greenwood raised a point regarding this particular risk around fixed term contracts and wondered whether staff will be offered permanent contracts. B McGuire explained that, in this time of change, the College was not in a position to offer permanent contracts until the structure has been approved.

S Greenwood highlighted that under the 'reason for change/key actions completed' column, it states that "no permanent contracts being offered now until consultation on organisational review completed". In S Greenwood's opinion, it should read "... until organisation review is completed".

B McGuire stated that she would review the wording with J McKie based on S Greenwood's comments.

M Breen added that the Board of Management at their development day in November 2013 suggested running a Risk Management Workshop in the New Year to review the overall approach of Ayrshire College in relation to risk and the structure of the Risk Register going forward. G James agreed with the suggestion about running a workshop in the New Year to look at the risk register and thought it would be very beneficial.

G James summarised the recommendation that the Audit Committee, subject to review and any amendments, approve the 2013-14 Ayrshire College Risk Register (V2) at October 2013 and advised that the committee approved the Risk Register.

Action: B McGuire to review wording with J McKie based on S Greenwood's comments.

12 AOCB

M Breen highlighted that J Wilson, the former Director of Finance at Ayr College had stayed on past vesting date in order to complete the 2012/13 Ayr College accounts and wished to take the opportunity to thank him. The Audit Committee concurred.

13 Date of Next Meeting

Tuesday 25 March 2014 at 5.30 pm, Kilwinning Campus.

Signed by the Vice Chair _____

Date: 25.03.14