Minute of the Audit Committee Meeting
held in Kilwinning Campus
on Tuesday 25 March 2014 at 5.30 pm

Present: Alan Walker (Chair)
Barbara Graham
Stephen Greenwood

In attendance: Michael Breen (Vice Principal, Corporate Services)
Brendan Ferguson (Secretary, Board of Management, Minutes)
Jackie Galbraith (Vice Principal, Strategy, Planning & Performance)
Alistair Gordon (Director, Finance & Student Funding)
Jane McKie (Vice Principal, HR & Organisational Wellbeing)
Jennifer Alexander (Scott Moncrieff)
James Thomson (Scott Moncrieff)
David Watt (KPMG)

1 Welcome and Introductions

The Chair welcomed everyone to the meeting.

2 Apologies

Apologies were received from Nicki Beveridge, Bill Costley, Gordon James and Bernadette McGuire.

3 Declarations of Interest

There were no declarations of interest.

4 Minute of the meeting held on 21 November 2013 *(Paper 1)*

Subject to the deletion of Jackie Galbraith from those in attendance, the minutes be confirmed as a correct record.

Proposed: Barbara Graham
Seconded: Stephen Greenwood

5 Matters Arising

The two action points from the last meeting have been actioned. There were no other matters arising.

6 Internal Audit Report: Value for Money Review of Childcare Support *(Paper 2)*

The Chair invited James Thomson (Scott-Moncrieff) to introduce the Report. J Thomson stated that Ayrshire College had inherited its childcare provision from the legacy colleges in the shape of three separate and quite different models. The College management, in recognising this, asked Scott-Moncrieff as internal auditors to consider this situation from an independent perspective and report accordingly. It was emphasised that this audit was wide ranging and not simply cost focused. The audit was intended to take an initial look at how the separate models operated and to consider whether they represented value for money in terms of the service they provided and in terms meeting the needs of the students who used them. In addition it was necessary to consider from a student's perspective what difference childcare provision might make and what impact it may have on their learning experience. It was also important to note that child care provision was not a core activity of the College, but was designed to support the overall student experience towards achieving a successful outcome to their studies. The report is intended to assist the Executive Management Team to gain a better understanding of the issues and provide a level of information which will support decision making. In response to a question from the Chair, J Thomson confirmed that he and Scott-Moncrieff had experience of this kind of audit with other Colleges and stated that they were also looking for an evidence base to consider.

The Chair next invited B Graham, as Chair of the Learning and Teaching Committee (L&TC) which had recently discussed the above paper, to report on the views expressed at that meeting. B Graham stated that the L&TC discussed the report at some length and welcomed it in terms of the information and evidence base it provided. The L&TC also welcomed the review of the three models operating and felt that the future model adopted by the College must demonstrate affordability, value for money, flexibility and be of benefit to and be able to support the maximum number of students. In essence, the model adopted should be optimal in meeting the requirements of the College and its learners.

M Breen agreed with the above points and added that the above report was not conclusive and was not intended to be at this stage of the deliberations. It was intended to provide information to allow the College to move forward into stage 2 of the deliberations on child care provision. This would involve working with the Nursery Managers on the Ayr and Kilwinning main campuses to identify improvements in efficiency and consistency of delivery across Ayrshire College.

J Thomson emphasised the need to build flexibility into the operational model as the demographics of child care requirements will vary year on year. The provision provided by the College will require to have sufficient inbuilt flexibility to accommodate these variations while at the same time providing the optimum level of child care opportunity within the level of resource available.

Some discussion took place on the existing Rainbow nursery contract and the need to ensure that there was sufficient notice of termination of contract.

A Gordon informed the Committee that legal advice has been sought and Rainbow have been informed in writing that the contract will not be renewed beyond June 2014. A Gordon also stated that he would be meeting further with Rainbow on this matter.

The Committee had further discussions noting that the matter of child care provision is a sensitive issue which requires to be well managed by the College. M Breen stated that there is a need to continue with the process of evidence gathering and gaining an understanding of the legacy provision and at this stage no longer term decisions were required to be made. The Committee was particularly pleased to note that the Nursery Managers were involved and a revised operational model will be trialled in 2014-15 and reviewed at the end of that year.

The Chair read to the Committee the written comments of Nicki Beveridge (who was unable to attend the meeting), which very much reflected the above discussion.

The Audit Committee welcomed the above Internal Audit Report and recorded its appreciation of the work carried out to date. The Committee looked forward to further progress reports in the future.

7 Internal Audit Report: Corporate Planning and Governance *(Paper 3)*

The Chair invited Jennifer Alexander, of Scott-Moncrieff, to introduce the above Report. J Alexander stated the auditors had gained assurance that the arrangements in place for corporate planning and governance at Ayrshire College were robust and aligned with best practice, including the UK Corporate Governance Code. There were two minor recommendations resulting from the audit and the College was encouraged to continue with the good practice it had developed.

B Ferguson confirmed that the recommendations would be actioned with a completion date of 31 May 2014 set.

The Chair and the Committee expressed their satisfaction at what was considered to be an excellent report. The Committee congratulated M Breen on the work he had undertaken on the Constitution and Governance Arrangements in preparation for the vesting of Ayrshire College, and expressed their view that this was the foundation on which the positive outcome to the audit was based.

The Audit Committee welcomed and approved the above Internal Audit Report.

8 Internal Audit Report: Core Financial Systems *(Paper 4)*

J Alexander introduced paper 4 and stated that it was a good audit report with only one minor recommendation to be considered. The Auditors had gained assurance that high level financial controls were in place for financial reporting and payroll and were working effectively. It also concluded that significant work has been undertaken in transferring data from the legacy systems in order to implement the robust financial systems in place at Ayrshire College.

A Gordon confirmed that the recommendations contained in the report would be actioned with a completion date of April 2014.

The Chair and Committee were pleased to note the very positive nature of the above report. The Committee commended, in particular, the work jointly undertaken between Finance and HR to implement the payroll system and the speed and accuracy with which the data from the legacy colleges had been assimilated.

The Audit Committee welcomed and approved the above Internal Audit Report.

9 2013/14 Ayrshire College Risk Register (V3) at February 2014 *(Paper 5)*

A Gordon stated that the Risk Register represents an "organic" document which will constantly evolve and be updated. In this version (version 3) two new risks have been added to the Finance section, as noted in the covering paper and the Register and no risks have been removed.

As a new organisation, Ayrshire College is continuing to develop and adapt its strategies in terms of the identification, recording and mitigation of risks.

M Breen added that the Risk Register represents a shared organisational responsibility to identify, take ownership and mitigate risks in each area of activity. In particular, as the organisational structures are completed and posts filled it is planned that risk management will be embedded within the functional areas which will allow departmental risk registers to align with the corporate Risk Register.

The Chair, on behalf of the Committee, commended the progress made in the development of the Risk Register and stated that everything that had been asked by the Audit Committee had been undertaken and completed satisfactorily.

The above Risk Register was approved and commended to the Board of Management.

10 New Campus Risk Register (V10) at February 2014 *(Paper 6)*

M Breen reminded the Committee that this Risk Register was considered previously by the New Campus Project Board and the Estates and New Campus Development Committee. Responsibility for the New Campus Risk Register is part of the Terms of Reference for the Estates and New Campus Development Committee, but it was important that it was also considered and endorsed by the Audit Committee due to their overall responsibilities in relation to the management of risk. The above document reflected the Risk in the current project phase i.e. the end of the procurement period. M Breen explained that the current Risk Register structure will be replaced in its next iteration by an Operational and Construction Risk Register to reflect the next stage of the project. It was also noted that the Scottish Funding Council and the Scottish Futures Trust were both pleased with the progress of the project and the work undertaken to date.

The Audit Committee were pleased to endorse the above Risk Register and also the progress made by the New Campus Project to date.

11 KPMG Audit Strategy & Overview Plan: Period Ending 31 March 2014 *(Paper 7)*

David Watt (KPMG) introduced the above paper and stated that while the objectives of the audit will not be significantly different from those for the legacy Colleges, the audit process will be more complex in the light of the merger process and the establishment of Ayrshire College. This will reflect the first period following the integration of the three legacy Colleges. In addition this period will also incorporate the impact of ONS and the consequent realignment of the financial year, the establishment of the Ayrshire College Foundation and subsequent transfer of financial assets to the Foundation. Further complexity will be added by the impact of the new build campus in Kilmarnock and the resultant impairment of the carrying value of the existing Holehouse Road Campus.

M Breen noted that there would be a number of exceptional adjustments to the Financial Statements in 2013-14, including the transfer to the Foundation, the Kilmarnock New Campus and the related required impairment to the carrying value of the Holehouse Road Campus. The Income & Expenditure account would have to reflect these adjustments. A Gordon advised that current indications were that the Income and Expenditure would show a reported deficit in the region of £11m for the eight months to 31 March 2014.

D Watt then went through the above proposals paper in detail. A number of questions were asked to which satisfactory responses were received. One of the questions related to the possibility of further accounting issues arising from the transfer of the Kilwinning Campus from the legacy James Watt College, now a part of West College Scotland. M Breen confirmed that all matters relating to the transfer of the Kilwinning Campus were now closed and the Ayrshire College balance sheet had been updated based on a methodology for the transfer of the Kilwinning Campus and related assets and liabilities brokered by the Scottish Funding Council and agreed by Ayrshire College and the West College Scotland. The agreed process has now been completed, the assets and liabilities transferred and the accounts audited and closed.

D Watt also explained the responsibilities of the external auditors in relation to the Ayrshire College Foundation. Although the Foundation is an independent and separate company, the accounting standards require tests to be applied to determine whether the Foundation should be consolidated for financial reporting purposes. D Watt confirmed that KPMG had considered this matter in detail and there is no requirement to consolidate the Foundation within Ayrshire College at 31 March 2014.

M Breen also confirmed that the College maintains regular contact with the external auditors and has kept them appraised of all of the issues arising during this exceptional period. D Watt concurred and stated that KPMG very much welcomed the contact and being kept informed.

The Audit Committee welcomed the Audit Strategy & Overview Plan and commended the approach adopted.

12 Proposed Adoption of Merger Accounting by Ayrshire College *(Paper 8)*

A Gordon introduced the paper and informed the Committee that bringing together the various assets, liabilities and trading results of the legacy colleges can be accounted for in two ways:

- Acquisition Accounting – which is more designed for a "take-over" situation where the "take-over" organisation will bring on the assets and liabilities of those being taken over at a "fair value".

- Merger Accounting – to be used where the parties are broadly similar with no dominant party.

A Gordon pointed to the technicalities of the two approaches as detailed in the above paper, including precedent elsewhere in the sector, and concluded that, on the basis of the technical rational, the adoption of Merger Accounting was the most appropriate solution for Ayrshire College. D Watt confirmed that KPMG had no objection to the adoption of merger accounting.

The Audit Committee approved the adoption of Merger Accounting to account for the combination of the legacy colleges.

13 Internal Audit Services – Post 31 July 2014 *(Paper 9)*

Jennifer Alexander and James Thomson (both Scott-Moncrieff) left the room for this item.

M Breen introduced this item, as contained in the content of the above paper, outlining the 'Option 1' rationale for an extension of the Scott-Moncrieff contract for eight months to take it up to 31 March 2015. Thereafter a tendering exercise would be undertaken for the award of the internal audit contract on a three year contract. M Breen confirmed that the College had been very satisfied with the services provided by Scott-Moncrieff to date.

The Audit Committee, after consideration of the options presented, approved Option 1.

Action:

(a) **Scott-Moncrieff's appointment as Internal Auditors be extended for a further eight month period to 31 March 2015.**

(b) **Thereafter, a tendering exercise be conducted for Internal Audit services for a three year period from 1 April 2015 to 31 March 2018.**

It was also agreed that a continuing internal audit programme was required which should include work on Asset Management (requested at a recent meeting of the Finance Committee). A Walker also reminded members that an ICT Audit was already planned.

14 Date of Next Meeting

Tuesday 17 June 2014, 5.30 pm, Kilmarnock Campus.

Signed by the Chair ________________________________

Date 17.06.14