

**Minutes of the Audit Committee Meeting
held in Boardroom, Ayr Campus
on Tuesday 24 September 2013 at 5.30 pm**

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

In attendance: Michael Breen
Alistair Gordon
Jane McKie
Jim Wilson
Chris Brown (Scott Moncrieff)
Brian Curran (KPMG)
Angela Scoular (Minutes)

1 Welcome and Introductions

A Walker welcomed everyone to the first meeting of the Audit Committee of Ayrshire College and asked all present to give a brief introduction of themselves and their role.

2 Apologies

Apologies were received from B McGuire, J Galbraith, J Alexander (Scott Moncrieff) and D Watt (KPMG).

3 Declarations of Interest

There were no declarations of interest.

4 Governance Arrangements – Audit Committee Terms of Reference

A Walker provided the background to Paper 1 and reminded Members of the discussions on the Constitution and Governance Arrangements paper presented to the Board of Management at their meeting on 5 August 2013.

A Walker summarised the contents of the paper and referred to Appendix 1 which is an extract from the Constitution and Governance Arrangements document.

A Walker asked if anyone had any amendments or alterations to the Audit Committee Terms of Reference.

M Breen highlighted that there was a change to be made which related to 'Group' being changed to 'Committee' under the heading 'Quorum'. This

amendment was highlighted at another Committee meeting and in order to provide consistency all Terms of Reference would be updated.

A Walker enquired whether the strategies to be agreed within the Committee's overall remit were strategic or operational based. M Breen advised that the Audit Committee would usually be focused towards agreeing strategies as opposed to a more operational focus in terms of this aspect.

A Walker noted that, if required, the Terms of Reference could be updated when required. G James raised a matter that was discussed at the HR Committee which related to whether a more definite date of review should be indicated. It was noted that it does state in the Terms of Reference that membership would be reviewed annually. M Breen explained that the Terms of Reference were extracted from the main Constitution and Governance Arrangements document and this document had an explicit review date of July 2014. M Breen reminded Members on W Mackie's comments at the first Board of Management meeting that the Governance Arrangements for Ayrshire College were based around the 1992 Act. Once the forthcoming Education Bill is passed, the Governance Arrangements would need to be reviewed and that this would be a key task for the Secretary to the Board of Management once appointed.

After some discussions around Committee membership, it was proposed that the wording within the Terms of Reference should be altered to read that "the Committee membership shall consist of a minimum of four members from the College Board and in line with good practice should not include either the Principal or the Chair of the Board". All Members agreed this revision.

A Walker then summarised the recommendation, subject to the amendments noted above being actioned the Audit Committee approved their Terms of Reference.

Action: M Breen to amend the Committee Terms of Reference as noted.

5 2012/13

1 Governance Arrangements – Closure of Financial Year 2012/13

M Breen provided some background to Paper 2. M Breen advised that Ayrshire College had the obligation to close 2012/13 matters relating to both the former Ayr and Kilmarnock Colleges. In relation to James Watt College, all 2012/13 matters would be completed by West College Scotland in line with previous agreements.

M Breen explained it was important to ensure that Ayrshire College could demonstrate good and robust Governance arrangements on these matters. It was agreed that it was also very important for Members to make appropriate recommendations throughout these processes.

M Breen reminded Members that the same paper was presented to the Finance Committee the previous week. Members of the Finance Committee highlighted that the recommendation and wording proposed was too passive and did not demonstrate a number of key responsibilities of Board Members around consideration, challenge or scrutiny

All Members acknowledged that it is important to get the wording right. After some discussion it was agreed that M Breen would work with both A Walker and T Wallace (Chair of Finance Committee) to discuss further this matter and agree appropriate wording in terms of the papers and recommendations presented to the next Audit and Finance Committees.

G James questioned whether indemnity insurance for Board Members still remained in place for the former Colleges. M Breen replied that one year insurance cover for Kilmarnock College Board Members was in place, insurance for former Ayr College Board Members continued as Ayr College was appointed as the 'Host' College for the creation of Ayrshire College but he was unsure about the situation with former James Watt College Board Members. A Gordon stated that from discussions with Colleagues at the former James Watt College he was aware of a potential five year indemnity insurance policy for former James Watt College Board Members. G James noted this update and considered it best practice to ensure that the proper insurance is in place in the event of any matters arising.

In line with the discussions, A Walker provided a summary noting that the Chairs of both Finance and Audit would discuss further this matter and agree appropriate wording in terms of the papers and recommendations presented to the next Audit and Finance Committees.

Action: M Breen to work with both A Walker and T Wallace to agree appropriate wording in terms of the papers and recommendations presented to the next Audit and Finance Committees.

Action: A Gordon to contact West College Scotland to clarify the exact arrangements in place for the former James Watt Board Members now part of Ayrshire College.

2 2012/13 Ayr College – Internal Audit Reports

A Walker noted for the purposes of the minute that he was the Chair of the Audit Committee in the former Ayr College. A Walker provided some background around these reports and advised that J Wilson was in attendance at the meeting to discuss the Ayr College Audit Reports and answer any questions the Members may have.

M Breen reiterated the comments made by A Walker adding that the main objective of this part of the Agenda was to ensure that there is a clear audit trail from the last Audit Committees of the former Ayr and Kilmarnock Colleges to the first meeting of the Ayrshire College Audit Committee.

In relation to the Ayr College Audit Reports, three reports had been presented.

Appendix 1 – 2012/13 Risk Management Report (Scott Moncrieff)

C Brown spoke about the Risk Management Report, which was issued in June 2013, and reported that no major weaknesses were found. Scott Moncrieff gained assurance that risk management arrangements at Ayr College for 2012/13 were effective and proportionate to the size and scope of the College.

However, C Brown noted there were some opportunities for the College to further develop its approach to ensure that the risk management process is fit for purpose within the context of the larger and more complex organisation. Given that Ayr College is now part of Ayrshire College, the following recommendations should be considered by the new Ayrshire College Board in their Risk Assessment process:

- Updating the Risk Management Policy to set out long term objectives for risk management and any revised arrangements;
- Ensuring all risks are clearly linked to specific organisational objectives;
- Defining consistent parameters for the measurement of risk to ensure consistency across all campuses; and
- Formally developing an agreed risk appetite.

M Breen stated that these points are helpful suggestions to consider as Ayrshire College develops its own risk management strategies and processes. After some discussions, Members agreed that the College needs to have an imbedded culture of risk management across the organisation.

M Breen stated that it was important for this Committee to decide what item(s), if any, in this report were to be carried forward formally within Ayrshire College.

After some discussion, A Walker summarised that no specific points should be considered as outstanding but the report and recommendations used to inform the direction of risk management within Ayrshire College. M Breen noted that a review of Ayrshire College Risk Management was being proposed in a later paper this evening.

Appendix 2 – 2012/13 Follow Up Report (Scott Moncrieff)

All recommendations raised in 2010/11 were followed up in June 2012 and were found to be fully or satisfactorily implemented.

The report highlighted five recommendations raised during 2011/12 under the following headings:

- Corporate Governance (March 2012)
- Health & Safety (June 2012)
- SUMs (October 2012)

The College has made good progress in implementing the agreed actions. Ayr College has gone through significant change in respect of the Ayrshire College merger and therefore one recommendation in relation to Corporate Governance is no longer applicable. Only one other recommendation made remains outstanding; delivery of health and safety training. This recommendation will be complete once the relevant qualification has been gained by the Health and Safety Manager in order that he may be qualified to deliver such training.

After some discussion, A Walker summarised that no specific points should be considered as outstanding for Ayrshire College and acknowledged the amount of work completed by Ayr College.

Appendix 3 – 2012/13 Internal Audit Annual Report (Scott Moncrieff)

C Brown introduced this report highlighting that this was the final Annual Internal Audit Report for Ayr College. C Brown explained that this report provided for Financial Year 2012/13:

- A statement of the internal audit cover achieved; and
- A summary audit opinion on the College's control environment and systems of internal control.

C Brown noted there were no grade 4 (high risk exposure) or 5 (very high risk exposure) actions raised during the year, therefore Scott Moncrieff did not identify any major control weaknesses.

C Brown summarised Scott Moncrieff's opinion, Ayr College had a strong framework of controls in place that provides substantial assurance regarding the effective and efficient achievement of objectives and the management of key risks. Proper arrangements were in place, in the areas that they reviewed, to promote value for money, deliver best value and secure regularity and propriety in the administration and operation of the organisation.

C Brown summarised that this was a very positive Annual Report and provided substantial assurance for the Audit Committee as few issues were raised.

A Walker thanked C Brown and acknowledged the positive nature of this report.

A Walker summarised that the Committee had reviewed and discussed the reports presented by Scott Moncrieff and that no points were being taken forward to Ayrshire College.

3 2012/13 Kilmarnock College Internal Audit Reports

M Breen provided some background to the section of the meeting. M Breen noted that all 2012/13 papers on this agenda were presented to the last meeting of the Audit Committee of Kilmarnock College.

Appendix 1 – 2012/13 Internal Audit Annual Report (BDO)

M Breen outlined some of the key aspects of the 2012/13 Internal Audit Annual Report. M Breen noted that during 2012/13, BDO LLP reviewed and evaluated Kilmarnock College's processes in the following areas:

- Approach to curriculum planning
- Central stores
- Follow up of previous internal audit recommendations

M Breen briefly outlined each of the 2012/13 reports and noted that all outstanding audit points had been addressed at the end of 2012/13. M Breen also explained that each firm of Internal Auditors have their own language and terminology.

M Breen summarised BDO's opinion, i.e. based on the reviews undertaken during the period, and in the context of materiality:

- The risk management activities and controls in the areas which we examined were found to be suitably designed to achieve the specific risk management, control and objectives.
- Based on verification reviews and sample testing, risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable, but not absolute assurance that the related risk management, control and governance objectives were achieved for the period under review.

M Breen summarised that the Ayrshire College Audit Committee can take assurances from the 2012/13 report provided and, therefore, no items require to be taken forward to Ayrshire College.

Appendix 2 – 2012/13 Audit Committee Annual Report

M Breen presented Paper 4 Appendix 2 and advised that this report had been brought forward slightly in the Kilmarnock College cycle and focuses on the 2012/13 Internal Audit programme and other committee work. Due to the timing of this report no External Audit information was included within this report.

A Walker questioned whether it would be appropriate to request a copy of the 2012/13 Audit Committee Report at the relevant time for the former James Watt College. C Brown replied that he did not consider this to be a requirement due to Ayrshire College's focus on closing the former Ayr College and Kilmarnock College.

M Breen added that it was clear that Kilwinning was a campus of James Watt College with support services received from Greenock around the key corporate functions and systems including HR, Finance, MIS and ICT.

A Walker summarised the recommendation, the Committee had reviewed and discussed the reports presented for 2012/13 and noted the contents.

6 2013/14

1 2013/14 Internal Audit Services – Scott Moncrieff

Due to the subject matter C Brown at this point left the meeting.

M Breen presented Paper 5 and advised that Ayr College had appointed Scott Moncrieff as Internal Auditors for a five year period which ends in July 2014. Given that Ayr College is the “Host College” it is proposed that the contract be continued and Scott Moncrieff act as Internal Auditors for Ayrshire College to July 2013. For completeness, the Internal Audit Services provided by BDO LLP for the former Kilmarnock College ended in July 2013. Options will be presented to a future Audit Committee for Internal Audit Services post July 2014.

M Breen explained that the 2013/14 Annual Internal Audit Plan is also being presented to Members this evening. The fees associated for Internal Audit Services for 2013/14 based on the scope is £14,070 (excluding VAT and expenses). This fee provides 35 internal audit days.

From the EMT’s perspective, M Breen explained that there are no concerns regarding continuing with Scott Moncrieff to the end of their contract.

M Breen asked Committee Members if they had any comments regarding the proposal presented. After some discussions, the consensus was that proceeding with Scott Moncrieff not only provided continuity but A Walker noted that they have been very proactive in the past highlighting both development issues and improvement opportunities.

A question was raised regarding whether or not their fee of £14,070 provided value for money for the proposed 2013/14 programme. M Breen replied that it is not a dissimilar fee to others he had seen based on the days allocated. M Breen noted that Internal Audit for a very important function and particularly in the context of Ayrshire College and the period of change.

M Breen also noted that the Audit Committee could expand the programme if required and given the context of 2013/14 the EMT may wish to consider other audit reviews if required.

C Brown returned to the meeting.

A Walker summarised the recommendation that Scott Moncrieff continue to provide Internal Audit services to July 2014.

2 2013/14 Audit Needs Assessment/Internal Audit Programme

M Breen introduced Paper 6 and outlined some of the background. M Breen noted that he had met with A Walker and the programme had been presented to the EMT. M Breen then outlined the proposed areas and rationale for review during 2013/14.

These included:

- Key Applications/Business systems reviews covering the following areas:
 - Financial Reporting
 - Payroll
- Value for Money Review in relation to the provision of Child Care Support
- ICT Strategic Review
- Corporate Governance
- Risk Management
- Follow Up

C Brown confirmed that this plan provided a mixture of high level strategic reviews along with more detailed system reviews. C Brown explained that this is a risk based plan therefore if any risks change; the plan will change and this will require to be approved by the Audit Committee.

B Graham asked whether any specific points from the Outcome Agreement should be included in the Audit Plan given it is the main strategic agreement for 2013/14. M Breen explained that the Outcome Agreement although focused on learning and teaching did also consider other wider organisational aspects. M Breen reported that various Committees would consider the Outcome Agreement during 2013/14. The focus of the Audit Plan for 2013/14 is focused on key risk areas.

A question was raised around Estates based audit reports. M Breen explained that an Estates Strategy would be presented in the new- year following on from a Board Strategy day. C Brown noted that ideally a three year audit needs assessment would be presented which would encompass a number of aspects including Estates. J McKie then explained that the move to three year outcome agreements would allow planning in the medium term.

A Walker referred to the recommendation contained within the report and stated that the Audit Committee had noted the proposed programme of work for 2013/14 and approved it subject to any comments or changes the Committee may have.

3 2013/14 External Audit Services – KPMG

M Breen presented Paper 7 and referred to the letter received from Audit Scotland proposing that KPMG act as the External Auditors for Ayrshire College for the period 2013/14 to 2015/16. A copy of this letter was included as Appendix 1.

B Curran stated that KPMG had previously acted as External Auditors for Ayr College, therefore this appointment as External Auditors for Ayrshire College also provided a level of continuity.

A Walker summarised that the Audit Committee noted this paper and the appointment of KPMG as external auditors for Ayrshire College.

7 Ayrshire College Risk Register

A Walker introduced Paper 8 and provided some background including that the 2013/14 'draft' Risk Register (V1) at August 2013 was presented to the Board of Management on 2 September 2013 and it was agreed that the Audit Committee would conduct a more detailed review at this meeting.

M Breen explained that this was the first version of the document and therefore will be subject to development and change to ensure it is fit for purpose for Ayrshire College. M Breen explained both the approach and principles behind the structure of the Risk Register presented. M Breen noted that 21 separate strategic risks are noted within the register and these have been allocated into 'Risk Clusters' with clusters based on the remit of the Committees.

M Breen explained that there is no 'Risk Cluster' specifically identified for the Audit Committee as the overall management of Risk is within this Committee's Terms of Reference.

Under each 'Risk Cluster', the 'Description of Risks' are identified and are split into:

- Key Risk Elements;
- Key Actions Taken to Mitigate Risk Elements; and
- Key Actions Planned in Next Quarter.

A Walker stated that he liked the format of the document but wondered how they would be able to identify what items had been added or updated without having to look through previous versions of the document. M Breen suggested one option could be that changes were tracked and colour coded e.g. highlighted in yellow

G James asked some questions for clarity. In relation to these points it was agreed that these aspects would be considered in Version 2 which will be presented to the next Audit Committee meeting. The points included potential changes to the wording of the templates to more clearly align to cause and effect as well a clearer definition of likelihood perhaps using percentages to guide consistent assessments.

A Walker noted the approval of the 2013/14 Ayrshire College Risk Register (V1) at August 2013.

Action: M Breen to review the comments made when producing the Risk Register Version 2.

8 New Campus Risk Register

M Breen introduced Paper 9 and provided some background around why a separate Risk Register for the New Campus Project is maintained. M Breen also noted that this format has developed as the Project has progressed. M Breen highlighted that the format of the new Campus Risk Register will continue to be reviewed as the Project moves beyond the Final Tenders stage.

M Breen explained that the New Campus Risk Register (V9) at August 2013 was approved by the Project Board at their meeting on 12 August 2013. The Risk Register was also presented to the last meeting of the Kilmarnock College Estates and New Build Committee was (V8) at May 2013.

M Breen explained that the Project Team have reviewed the number and continued relevance of the strategic risks identified in the previous Risk Register including their scoring profiles.

A number of questions were asked and answered. G James asked whether a separate “issues register” was maintained. M Breen noted that a formal “issues register” was not maintained but the substance of this approach was embedded within the day to day working of the Project Team and its External Advisers. M Breen also noted that some issues had arisen which were then added to the Risk Register in its development to date.

A Walker summarised the recommendations and stated that the Audit Committee had reviewed and discussed the New Campus Risk Register (V9) at August 2013 and noted the contents of the report.

9 Date of Next Meeting

Wednesday 21 November at 5.00 pm, Kilmarnock Campus

Signed by the Chair _____

Date: 21.11.13