

**Present:** Alan Walker (Chair)  
Nicki Beveridge  
Jim English  
Barbara Graham  
Stephen Greenwood  
Gordon James  
Alan McGregor

**In attendance:** Brendan Ferguson (Minutes)  
Michael Breen  
Jane McKie  
Jackie Galbraith  
Alistair Gordon  
Dave Swan  
Paul Kelly (Scott-Moncrieff)  
Jennifer Alexander (Scott-Moncrieff)  
David Watt (KPMG)  
Phil Charles (KPMG)

## **1      Welcome and Introductions**

The Chair welcomed everyone to the meeting.

## **2      Apologies**

There were no apologies

## **3      Declarations of Interest**

There were no declarations of interest.

## **4      Minute of the Previous Meeting held on 17 June 2014 (Paper 1)**

Subject to the completion of the following corrections, the minute was approved as a correct record:

Page 5, Item 9 final paragraph: “*Estates and New Build Committee*” be amended to read Estates and New Campus Development Committee.

Page 6, Item 10 paragraphs two and four: “*SPFM*” be amended to read PSFM.

Proposed: Stephen Greenwood

Seconded: Barbara Graham

## 5 Matters Arising

Page 2, Item 6 – *Ayrshire College Risk Register*: B Ferguson reported that a Development Day had been organised for 14 November 2014 at which the Risk Management Workshop would form the morning session.

Page 6, Item 9 Action – *Internal Audit Plan*: The Audit Committee will receive from the Estates & New Campus Development New Campus Risk Register for information and comment where appropriate.

Page 7, Item 10 Conclusion – *Proposed Addendum to the Financial Regulations and Scottish Colleges Insurance arrangements*: M Breen reported that a case had been prepared by Colleges Scotland and forwarded to SFC setting out the rationale why Colleges in Scotland should continue commercial insurance arrangements. The case presented was very strong and was currently under Scottish Government consideration. In addition the proposed Addendum to the Financial Regulations had been positively redrafted in the light of the feedback received from the Sector.

## 6 Governance Arrangements Audit Committee Terms of Reference (Paper 2)

B Ferguson explained that notification and consideration of the terms of reference was a standing item at the first meeting of the Committee in each academic year. Normally the Committee could take the opportunity, if appropriate, to comment on whether they wished to propose any amendments. That remained the case.

However, following approval of the revised Ayrshire College Constitution and Governance Arrangements at the June 2014 Board meeting, the Secretariat had undertaken to review the Board Committee structure and Terms of Reference over the summer of 2014. That review was now close to completion and related proposals would be brought to the Board of Management meeting on 30 September 2014. There would be no resultant proposal to change the committee structure, however there were a number of housekeeping proposals in relation to the committees' terms of reference that would be brought forward and the Chairs of the Committees would be informed of these proposals prior to their consideration by the Board.

In addition, proposals would also be presented to the Board of Management on 30 September in relation to the Board's self-assessment of Governance to be carried out for the 2013/14 academic year and to be continued into future years.

**The Committee noted the above report and asked that consideration be given to the inclusion of the date of the next review of the Constitution and Governance Arrangements and the Committee Terms of Reference.<sup>1</sup>**

## **8 2013/14 Board of Management Report and Financial Statements (Paper 3)**

M Breen introduced the above document and briefly summarised the Introduction and Background (Paper 3). M Breen explained that 2013/14, the first trading period for Ayrshire College operations, had been exceptional and had seen the College record a trading surplus, but, as a result of the exceptional strategic items highlighted within the paper, a final deficit was presented in the end of year accounts and financial statements.

A Walker, as Chair, read out a communication from the Chair of the Finance Committee, T Wallace, which stated that there had been a delay in the Finance Committee's approval of the accounts as a result of the late decision to include the Kilwinning PFI arrangements "on balance sheet". T Wallace regretted the delay in reaching this decision, which had resulted in further work being undertaken in order to complete the final preparation of the statements.

M Breen explained that the decision to include the PFI arrangements "on balance sheet" had been a long and complex one which had been taken following a number of discussions and consultations with the external auditors on the most appropriate accounting treatment. M Breen also regretted that it had caused delay in the final presentation of the statements to the Finance Committee, but was confident the correct decision had been taken. D Watt, on behalf of KPMG, confirmed that the decision had been taken in full consultation with the external auditors and concurred that in KPMG's view it was the correct accounting treatment.

A number of questions were asked including a request from B Graham for an explanation of the Holehouse Road Impairment which constituted one of the exceptional items. This impairment value was large and within the accounts had contributed significantly to the final accounting deficit recorded. M Breen explained that because the New Build Campus Project had reached financial close (i.e. contract concluded), the College was required in accounting terms to "write down" the value of Holehouse Road Campus in Kilmarnock in a short period with the vast majority of some 28 (of 30 years) years being undertaken in this reporting period. Given the materiality this would be treated as a post balance sheet event. M Breen explained the Holehouse Road campus would be vacated in 2016 and future sales proceeds returned to Scottish Funding Council.

M Breen continued that, similarly, the establishment of the Ayrshire College Foundation (ACF) and the subsequent donation to the ACF also constituted an exceptional item in the 2013/14 accounting process, which again contributed significantly to the overall accounting deficit recorded. Although both of these items must be recorded as an accounting deficit, this did not relate to the underlying financial position of the College as a trading organisation and had no

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<sup>1</sup> Note by Secretary: The date of the next review is agreed and shown on the front cover of the Constitution & Governance Arrangements as September 2015. This includes the Committee terms of reference.

impact on the financial sustainability of the College. They are exceptional accounting items which have skewed the accounts. As such the College will ensure that it is fully prepared to explain the exceptional nature of the accounts when they are made public.

A number of further questions were asked and satisfactory answers received. On the basis of the above report and discussion the Audit Committee were content to recommend approval by the Board of Management.

**The Audit Committee recommends approval of the 2013/14 Board of Management Report and Financial Statements by the Board of Management at its meeting on 30 September 2014**

**Annual Report to the Board of Management and the Auditor General (KPMG) (Paper 4)**

Paper 4 was taken as an immediate continuation from Paper 3.

D Watt of KPMG confirmed the complex nature of the accounts presented as stated in the above item and took the Committee through the report in detail. D Watt stated that KPMG would sign off all requirements including the Annual Report to the Auditor General following its presentation to the Board of Management at their next meeting on 30 September 2014.

A number of questions were asked and satisfactory answers received.

D Watt advised that, as is the requirement in a relationship of this nature, KPMG were content to sign off that there were no consolidation issues between Ayrshire College and the Ayrshire College Foundation in 2013/14. However, this will be an annually recurring process, in line with the rest of the College Sector, and the College and the Foundation must take great care to ensure that the position in regard to non-consolidation remains clearly demonstrable for audit purposes in the future, and that no actions are taken which could lead to the impression that the College was seeking to control or unduly influence how the Foundation makes its decisions.

**9 Letter of Representation (KPMG) (Paper 5)**

D Watt advised that this document represented the standard letter of representation and that no issues were raised within the letter.

**The Committee noted and approved the standard letter of representation for forwarding to the Board of Management**

**10 FES/SUMs Audit: Verbal Report (Scott-Moncrieff)**

J Alexander of Scott Moncrieff reported that while this was still work in progress, at this time there was no indication that there would be anything of significance to report. It was proposed that, as the Audit Committee is not scheduled to meet again until 27 November 2014, in order to facilitate sign-off to SFC by 31 October 2014, confirmation of “sign off” would be circulated to the Chair and the certificate and report presented to the November 2014 Committee meeting.

**The above verbal report be noted and the proposal approved.**

**11 Student Funding Audit: Verbal Report (Scott-Moncrieff)**

J Alexander following on from item 10 again confirmed that although work was still in progress, there was no indication that there would be anything of significance to report. Again, in order to facilitate sign-off to SFC by 31 October 2014, confirmation of “sign off” would be circulated to the Chair and the certificate presented to the November 2014 Committee meeting.

**The above verbal report be noted and the proposal approved.**

**12 2013/14 Audit Committee Draft Annual Report**

A Walker introduced the above draft and stated that it had been prepared in line with the requirement contained within the Committee's terms of reference.

Members discussed the above draft and several editorial amendments were noted by the Secretary

**Subject to the completion of the editorial amendments, noted by the Secretary, to the satisfaction of the Chair and Vice Chair, the report was approved for presentation to the Board of Management.**

**13 Internal Audit Report on ICT (Scott-Moncrieff) (Paper 7)**

P Kelly (Scott-Moncrieff) introduced this audit report and stated that whilst three red risks were identified, in order to place this into context it was important to understand the background to this report. In the period since merger the College had undertaken the massive task of bringing together 3 independent and separate ICT infrastructures and associated systems. The Audit had taken place 2 months after that the ICT Team structure had been completed. In Scott Moncrieff's view, a lot of good work had been undertaken and an impressive number of tasks had been completed. The internal audit had identified a number of issues of control improvement. Scott Moncrieff was confident that these matters would be addressed and felt that the current position of the College's

ICT was not inconsistent with any organisation going through a period of significant change. P Kelly reiterated Scott-Moncrieff's belief that the issues could be addressed in a planned and structured manner within an agreed timeframe as noted within the report.

The Committee spent some time discussing the outcome of this report, especially given the comparison to the previous internal audit reports it had received in the past year. Members agreed that the setting of the report in context had been very helpful. Members also agreed that urgent action was required to ensure that the red issues identified were quickly addressed in line with the timetable proposed.

D Swan reported that all of the outstanding actions required would be dealt with in a prompt and efficient manner and the process fully completed by January 2015. M Breen added that a focussed work plan had been agreed and the Committee, in future meetings, will be able to track the progress made.

In noting the above. The Committee asked that the risk assessment (FIN 3), in relation to these red issues, be raised to 16 pending their satisfactory resolution.

**The Audit Committee noted and approved the above internal audit report and noted the comments made by Scott-Moncrieff and College Management. The Committee agreed that it would monitor the progress being made in addressing the issues identified within the report by the agreed date of January 2015.**

**Action: Risk Assessment (FIN 3) be raised to 16 pending the satisfactory completion of the remediation identified as a result of the above report.**

#### **14 Annual Internal Audit Plan- Review of Purchasing and Tendering (Paper 8)**

M Breen introduced the above paper and stated that the EMT were proposing a further area be added to the internal audit plan for the period ending 31 March 2015, in addition to those already agreed by the Audit Committee. This further audit assignment would review purchasing and tendering within the College. It was proposed that the review be undertaken by Scott-Moncrieff in the first quarter of 2015, following the completion of the Procurement Capability Assessment to be undertaken by APUC by the end of 2014. The draft objectives of the audit were included in the above paper and would be agreed with Scott-Moncrieff and brought back to the Audit Committee for agreement at its November 2014 meeting.

**The Committee agreed that an additional audit to review the processes for Purchasing and Tendering be included within the Annual Internal Audit Plan for the year ending 31 March 2015. This audit to be undertaken following the completion of the Procurement Capability Assessment being undertaken by APUC by the end of this year. The objectives for this additional audit would be brought to the next meeting of the Committee in November.**

## **15 Ayrshire College Risk Register (V2) at August 2014 (Paper 9)**

A Gordon introduced the above paper and stated that 22 risks were now identified, with 2 increasing risk scores and 2 decreasing risk scores. All of the changes from the previous version of the Risk Register had been highlighted in yellow to aid monitoring and clarity. A Gordon reminded the Committee that each individual committee's Risks are received and considered by that committee and then fed back into Corporate Risk Register presented to the Audit Committee. A Gordon noted some challenges around Committee dates in respect of this process.

M Breen highlighted the importance of arranging a Risk Workshop as part of the forthcoming Board of Management Development Day. This workshop would assist in the development of a mutual understanding of the ongoing development and management of risk within the College and assist in progressing the work which has been undertaken over the last year. In addition, the workshop would help address the recommendations made by Scott-Moncrieff in their Risk Management review.

**The Committee approved the 2014/15 Risk Register (V2) for presentation at the Board of Management meeting on 30 September, subject to the inclusion of the raised (FIN 3) risk as agreed above.**

**The Committee were also pleased to note that a Risk Workshop, to be included in the forthcoming Board of Management Development Day, had been arranged. The Committee further agreed that defining the content of the Workshop, in discussion with Scott-Moncrieff should now be a priority for the Chair and the Secretary to undertake in consultation with the Chair of the Finance Committee, the Chair of the Board and the EMT.**

## **16 New Campus Risk Register (V1) at August 2014 (Paper 10)**

M Breen reported that the Estates & New Campus Development Committee (ENCDC) had agreed at its meeting on 10 June 2014 that V10 be the last version of the New Campus Risk Register focused on the Procurement Phase of the Project. The above document represents the first New Campus Risk Register (V1) of the Construction Phase of the project.

M Breen continued that it is the responsibility of the ENCDC "...to oversee the development of the New Build Campus Project including risk management". However the Audit Committee have an over-riding responsibility to "ensure a system of risk Management has been established and is being maintained". The Audit Committee are therefore presented with a copy of the New Campus Risk

Register to discuss and review at each meeting. This version (V1) was approved by the ENCDC at its meeting of 19 August.

The Chair, A Walker, stated that he would clarify the relationship and where the responsibilities lie with the Chair of the New Campus Development Committee.

The Committee reviewed the above document and some members commented that it was not as user friendly in terms of its structure and presentation as the Corporate Risk Register. M Breen explained that this structure and presentation had been agreed by the Estates and New Campus Development Committee and suggested that this point be taken forward to the Workshop.

**The Committee noted the New Campus Risk Register and agreed that the Chair should clarify in discussion with the Chair of ENCDC the relationship between the two committees and where responsibilities lie for the New Campus Risk Register.**

**17 Internal Audit Services: 1 April 2015 to 31 March 2018 (Paper 11)**

M Breen introduced the above paper and commended its content to the Committee for approval.

**The Committee noted and approved the proposed procurement process, as set out in the above paper, for the provision of Internal Audit services for the period 1 April 2015 to 31 March 2018**

**18 Date of Next meeting: Thursday 27 November 2014 at 5.30 in Kilwinning Campus.**