

**Minute of the Audit Committee Meeting
held in the Kilmarnock Campus, on Tuesday
9 June 2015 at 5.30 pm**



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

In attendance: Brendan Ferguson (Board Secretary)
Michael Breen
Jane McKie
Chris Brown (Scott – Moncrieff)
James Thomson (Scott – Moncrieff)
Phil Charles (KPMG)
Carol Alderson (KPMG)

Risk Management Workshop Follow Up

A follow up session to the Risk Management Workshop held on 23 April 2015 was held prior to the start of this Audit Committee meeting at which Scott-Moncrieff presented their workshop outcomes and their follow up paper "*Risk Management – the next steps*". The paper and its proposals were agreed by the Audit Committee members as follows:

The Risk Register should set out risks under strategic objectives showing a clear link between the risk and the objective that will be impacted;

College Management should agree the new risk clusters/themes for the College;

The risk clusters/themes should be used to ensure each key strategic risk relevant to each risk cluster is identified;

The College define and agree its own risk appetite for the clusters/themes identified.

It was agreed that work would be undertaken over the summer involving the EMT and Chair of the Audit Committee with a view to preparing detailed proposals for implementation in 2015/16. In addition to the above, the work would encompass identifying where responsibilities lie, including a College Officer and lead committee responsible for each risk. There was also a requirement to identify the level of risk routinely reported to the Audit Committee and the Board and whether it would be limited to the higher level risks and/or those which had changed significantly.

1 Welcome and Introductions

The Chair welcomed everyone to the meeting.

2 Apologies

Apologies were received from Jim English

3 Declarations of Interest

The only declaration of interest was for Scott-Moncrieff in relation to agenda Item 8 for which it was agreed they would withdraw.

4 Minute of the Previous Meeting held on 3 March 2015 (Paper 1)

The Minutes were approved as a correct record.

Proposed: Stephen Greenwood

Seconded: Nicki Beveridge

5 Matters Arising

Page 1 Item 6: The Risk Management Workshop had been held on 23 April 2015 as planned. The outcome follow up to the Workshop, based on the Scott-Moncrieff paper "*Ayrshire College Risk Management – The Next Steps*", had been held immediately prior to this meeting and a record of that meeting is attached as appendix 1 to these minutes.

Page 4 Item 11: the tour of the New Campus had been re-scheduled to the September meeting.

6 Internal Audit Rolling Action Plan (Paper 2)

M Breen took the Committee through the attached paper and noted that the Risk Workshop follow up discussion recorded above meant that Strategic Risk outstanding actions were now complete.

The Audit Committee noted the content of the Rolling Internal Audit Action Plan and the fact that the Strategic Risk outstanding actions at May 2015 were now complete.

7 Internal Audit Report: Education Contracts (Paper 3)

C Brown (Scott-Moncrieff) introduced the above report on behalf of Scott-Moncrieff and stated that the internal audit had found Education Contracts to be a well-managed area and that no major weaknesses had been identified on the basis of the sampling carried out. A number of points and opportunities for improvement had been identified as a part of the audit process and these had been recorded in the report. A number of questions were asked and satisfactory responses received.

The Education Contracts Internal Audit Report and associated Management Action Plan was welcomed and approved by the Committee.

8 Internal Audit Report: Asset Management (Paper 4)

C Brown introduced the above report stating that it was a strong report with no major weaknesses identified and that all associated recommendations were low risk. C Brown went through the report as written, stating that since the merger and following ONS reclassification the College had made significant progress toward a unified and robust approach to asset management. The biggest issue facing the College related to long term capital planning. While it was clear that since the merger a number of constraints have been placed on the college sector which meant that the College had been unable to forecast capital expenditure in the medium to long term, it was felt that more indicative planning needed to be fleshed out to assist the College in identifying its medium and longer term priorities.

M Breen acknowledged the point made above and stated that the College would consider the allocation of asset priorities as a part of its general strategic considerations.

The Asset Management Internal Audit Report and its associated Management Action Plan were welcomed and approved by the Committee.

9 Audit Strategy Review and Plan for the 16 Month Period ending 31 July 2015 (KPMG) (Paper 5)

M Breen introduced the above external audit plan for the period 1 April 2014 to 31 July 2015 stating that it set out the scope and context of the external audit process and the areas which the audit will consider.

P Charles (KPMG) took the Committee through the Plan and reported that the Scottish Funding Council had indicated that no audit of the Resource Return to 31 March 2015 was required and that KPMG, as external auditors, would now focus on the period ending 31 July 2015.

KPMG raised the issue of the Scottish Funding Council (SFC) funding shortfall of Ayrshire College in 2014/15, the SFC instruction to the sector to use net

depreciation “cash” to cover the funding shortfalls and the consequent deficit position that would result. He confirmed that the external audit firms had not been contacted by or received any guidance from SFC in this respect.

A discussion ensued at which concern was expressed at the governance aspects of the actions recently taken by the Scottish Government and the SFC which had been beyond the control of the Board, but which would impact significantly on the Financial Statements which the Board had to approve and submit later in the year. These actions had impacted upon the Board’s ability to manage the strategic and financial affairs of the College and had also impacted on the Board’s ultimate accountability for the management of public funds. Further, these actions raised basic governance issues under the various acts of parliament which govern Scotland’s Further Education Colleges and these would require to be addressed going forward. The SFC had stated that the use of net depreciation “cash” would result in a “technical deficit” only, and would not result in audit issues being raised by external auditors. KPMG stated their view, however, was that there was no such thing as a “technical deficit” when it would impact on cash flow as the use of net depreciation “cash” in the manner prescribed clearly would. KPMG noted that such a position could potentially result in auditors raising going concern issues in their reports.

The Committee noted the above with concern and felt that it echoed previous discussions recorded at the Finance Committee, the Board of Management and the Board Strategy Day held in April. The rest of the plan was considered and noted without significant comment.

The Audit Committee noted and approved the Audit Strategy Review and Plan for the 16 Month Period ending 31 July 2015.

The Audit Committee noted its concern at the discussion recorded above, the Governance implications contained therein and the requirement for the sector to clarify their governance position with the Scottish Government and SFC at the earliest opportunity.

10 Ayrshire College Risk Register (V5) at May 2015 (Paper 6)

M Breen introduced the Risk Register (V5). The Committee noted:

- FIN1 (Failure to achieve financial sustainability and embed appropriate financial decision making) had been increased from 16 to 20 as a result of the projected student funding deficit.
- L&T1 (Failure to meet the SFC Activity & Performance Targets) had been increased from 16 to 20 as a result of the projected shortfall in achieving the WSUMs target.
- BOM1 (Failure to manage reputational damage) had decreased from 16 to 12 in the light of resolution of the industrial dispute.
- HRW1 (Failure to nurture good employee relationships) had decreased from 16 to 12 for the same reason as the previous bullet point.

The Committee approved the 2014/15 Ayrshire College Risk Register (V5) at May 2015 as set out in Paper 6 above.

11 New Campus Risk Register (V6) at May 2015 (Paper 7)

M Breen introduced the above document, explaining that it had previously received approval by the Estates & New Campus Development Committee and that the Risks still lie predominantly with College's partners and that will remain the case until the migration process begins in the new academic year.

The Committee noted the New Campus Risk Register (V6) at May 2015.

12 Internal Audit Services – 1 August 2015 to 31 July 2018.

The Chair reported that 3 tenders had been received and would be considered by the Evaluation Panel which will meet on 19 June 2015 and also conduct the interview process. The results would subsequently be circulated to members for approval and then forwarded to the Board for approval.

The Committee noted the above verbal report.

13 Date of Next Meeting: TBC at the next meeting of the Board of Management.