

**Minute of the Audit Committee Meeting
Held in the Ayr Campus, on Thursday 10
December 2015 at 4.00pm**



Present: Alan Walker (Chair)
Jim English
Barbara Graham
Gordon James
Alan McGregor

In attendance: Brendan Ferguson (Board Secretary)
Michael Breen
Alistair Gordon
Bernadette McGuire
Phil Charles (KPMG)
Carol Alderson (KPMG)
Elizabeth Young (Scott – Moncrieff)

1 Welcome and Introductions

The Chair welcomed everyone to the meeting.

2 Apologies

Apologies were received from Board Member Nicki Beveridge and EMT members Jackie Galbraith, Jane McKie and Donna Vallance.

3 Declarations of Interest

There were no declarations of interest.

4 Minute of the Previous Meeting held on 29 September 2015 (*Paper 1*)

The minutes were approved as a correct record.

Proposed: Barbara Graham
Seconded: Gordon James

5 Matters Arising

Item 9, Page 5; Proposed Internal Audit Strategy for the Period: the Learning and Teaching Committee had not yet met and had not had an opportunity to discuss the priorities for the Student Experience/Curriculum internal audit. The matter would be considered at the scheduled February 2016 meeting of the Learning and Teaching Committee in good time for report to the Audit Committee by June 2016.

6 2014/15 Board of Management Report and Financial Statements (Paper 2)

A Gordon took the Committee through the above document and appendices. The following points were noted:

- The figures contained in the above document were approved at the meeting of the Finance Committee held on 19 November 2015.
- As external auditors KPMG had, on the basis of their audit of the 2014/15 accounts, noted that the College would remain a going concern for the financial year 2015/16.
- The Finance Committee had requested the inclusion of a statement explaining the SFC instructed use of non-cash 'net depreciation' to offset areas of funding shortfall. While this would still result in a "technical deficit" the College was instructed by SFC that this position was acceptable to Audit Scotland and the Scottish Government. Accordingly a statement explaining the use of net depreciation, using wording agreed with SFC, had been included on pages 4 and 5 of Appendix 2 of the above document. KPMG had confirmed that they had no concerns regarding the inclusion of this statement.
- Bearing in mind the content of the above bullet point, the above report explained how the College had moved from an agreed budget position of a small surplus to a deficit position.
- The use of net depreciation within the accounts in the manner described had resulted in a net decrease in the "cash in bank" position of the College. As a result the College had moved from a position of holding an average 30 day cash reserve to a 17 day cash reserve in the bank. Cash flow was considered secure until the end of the current financial period at 31 July 2016. As things currently stood, no guarantees of cash flow maintenance at current levels could be provided beyond that time as the College would need to fully understand the financial implications of the 2016-17 main grant provided by SFC in the context of the current spending review. In addition, any future decision to use net depreciation in the same manner would most likely impact further upon the College's cash reserves. It was noted that no decision on this would be made by SFC until after the New Year.
- The College was currently awaiting the outcome of the Scottish Government spending review, which followed on from the same process undertaken by the Westminster Government. This would determine the funding available to the college sector for the next three years. Across the sector Colleges were currently significantly weaker in financial terms than they were three years previously. As noted above, Ayrshire College was currently a going concern and it would be the responsibility of the Board to ensure that the College maintains its position as a going concern.

- The strong view of this Committee was that the Board must take a view on the use of net depreciation within the accounting process and that view be communicated to SFC.
- The Government Financial Reporting Manual requirement for the disclosure of the total accrued pensions for senior members of staff had not been included in the statements. This was because much of these accrued amounts did not relate to employment by Ayrshire College, but came from previous employers of the staff concerned, some of whom were private sector employers. Unless an acceptable rationale was received for the full disclosure of this information, this would continue to be regarded by the College as irrelevant and potentially misleading information and an invasion of privacy. The Finance Committee had indicated its support for this position. As a result, KPMG was required by SFC and Audit Scotland to record a qualified opinion on the remuneration report. This was explained on page 24 of Appendix 2. KPMG had confirmed that, except for this matter, in their opinion the remuneration report had been properly prepared.

The Committee discussed the above document and appendices. A number of questions were asked and members were satisfied with the responses received. It was agreed that the Audit Committee would recommend approval of the Report and Financial Statements to the Board of Management.

The Committee spent some time discussing the ongoing issue of the use of net depreciation and the Audit Committee's strongly held opinion on the need to formally express its views and concerns on this matter to SFC. It was agreed that the Committee would recommend to the Board of Management that the Chair of Audit write to the Chief Executive of the Scottish Funding Council, copied to the Chair of SFC, expressing the serious concerns of Audit Committee and the Board at the impact of the use of net depreciation on College finances and the serious implications for the College if this practice were to be continued.

The Audit Committee recommended approval of the 2014/15 Board of Management Report and Financial Arrangements.

The Audit Committee recommended to the Board of Management that the Chair of Audit write to the Chief Executive of the Scottish Funding Council expressing the Committee and the Board's serious concerns at the current use being made of net depreciation funds and the implications for the College.

7 KPMG Annual Audit Report to the Board of Management and Auditor General (*Paper 3*)

M Breen introduced the above report and noted that the external audit had gone very well and credit was due to A Gordon and his team for their preparations. KPMG concurred and stated that they had looked very closely at VS payments in the light of the public interest in the sector and were pleased to report that the Ayrshire College arrangements were strong and that VS payments had met all requirements.

A number of questions were asked and satisfactory responses received.

The Committee recommended approval of the Annual Audit Report by the Board of Management.

8 Letter of representation to External Auditors (Paper 4)

The Committee noted that this was the standard disclosure confirming that all requisite information had been provided to the external auditors and were satisfied that this was the case.

The Committee approved the Letter of Representation and recommended to the Board that the Chair and Principal sign it and forward it accordingly.

9 Internal Audit Rolling Action Plan at November 2015 (Paper 5)

The Committee noted the above paper as the standard update of progress on actions arising from internal audits and further noted that progress was proceeding satisfactorily.

The Committee noted the contents of the above report and the updated rolling action plan at November 2015.

**10 2014/15 Student Support Funds Internal Audit - Observations (Paper 6)
2014/15 SUMs Return Internal Audit – Observations (Paper 7)**

The Committee noted the above reports and asked that further information be provided on the testing undertaken.

The Committee noted the above reports.

Action: Scott Moncrieff were asked to add to the documents an explanation of the testing undertaken.

11 2015/16 Key Financial Systems Internal Audit Report (Paper 8)

The Committee noted the content of the report and were pleased to note the conclusions that robust procedures are in place with some relatively minor scope for improvement. The Chair described it as an excellent report and commended all involved.

Several questions were asked and satisfactory responses received. The same observation was made as had been made in the previous academic year that the report terminology between risk and priority ratings required clarification.

The Committee noted and welcomed the content of the above report and commended all of the staff concerned.

Action: Scott Moncrieff be asked to note the comment regarding clarifying the terminology used between risk and priority ratings.

12 Risk Management Policy (Paper 9)

A Gordon took members through the revised Risk Management Policy developed in response to the outcomes of the Risk Workshops held over the previous six months. Members welcomed the progress that had been made as a result of the workshops, at the same recognising that it would take several iterations of the risk register before the Board and its committees were fully at ease with the new approach.

In particular the introduction of risk appetite as a measure within the overall approach to risk had raised a number of questions of clarification. A question was asked about whether this issue had been raised at Board committee meetings as the new revised risk register approach was being rolled out. M Breen replied that it had and there were clearly issues around clarity and the terminology related to risk appetite. M Breen added that all the points raised would be given further consideration following a full cycle of risk register consideration.

The Committee recommended the Risk Management Policy for approval by the Board and acknowledged that it may take several cycles for the revised approach to bed down.

Action: An update be brought to the Committee later in this academic year outlining the progress being made following the feedback received from the committees.

13 2015/16 Ayrshire College Risk Register (V1) at November 2015

A Gordon took members through V1 of the Risk Register, reminding members that this was an unusual year insofar as the work being undertaken in revising the approach to risk management had resulted in delay in the production of this first iteration of the revised register. Up to this point the previous register had been in operation.

A Gordon added that the risk appetites contained in this first iteration had not been agreed by the Board, but were provisional settings established to provide a starting point for discussions by the individual committees. One change had already been made following consideration by the Human Resources and Organisational Wellbeing Committee.

The Committee approved V1 of the Risk Register for consideration by the Board. In so doing the Committee agreed that the EMTs initial proposals in relation to risk appetite be included along with an explanation to this effect. Thereafter the risk appetites to be considered through the committee cycle for further consideration by the Board at its March 2016 meeting.

14 New Campus Risk Register (V10) at November 2015 (Paper 11)

The Committee noted that the above document had been considered and approved by the New Campus Project Board on 26 November 2015.

The Committee noted the above document.

15 2014/15 Internal Audit Opinions Prepared by Scott Moncrieff (Paper 12)

A Gordon introduced the above paper, explaining that it showed the full range of the internal audits completed by SM in 2014/15 and a summary of the audit reports. The Committee was pleased to note the satisfactory nature of the Scott Moncrieff opinions.

The Committee was pleased to note the satisfactory nature of the opinion expressed in the above document.

16 2014/15 Audit Committee Draft Annual Report (Paper 13)

A Gordon took the Committee through the report and highlighted where changes had been made. Members noted the changes and asked that in future any changes made be highlighted in yellow for easy reference.

The Committee approved the above annual report for presentation to the Board of Management.

17 Date of Next Meeting: Thursday 24 March 2016.