**Audit and Risk Committee Minute**

**5.00 pm 2nd September 2024 – at the Coatbridge Campus and Via Zoom**

**Present: Yvonne Finlayson, Catherine Pollock.**

**In Attendance: Ann Baxter, Iain Clark, Ronnie Gilmour, Diane McGill, Jack Kerr (Audit Scotland), Louisa Yule (Audit Scotland).**

**Via Zoom: Kellyann McGraith, Elaine McKechnie, Penny Neish, Stephen Pringle (Wylie Bisset), Alastair Rennie, Ronnie Smith,**

**1. Chair’s welcome:** The Chair welcomed everyone back after the summer break and thanked them for attending the meeting.

**2. Apologies for Absence:** There were apologies from Christopher Moore and Stella McManus.

**3. Declarations of Interest:** There were no declarations of interest.

**4. Minute of meeting 13th May 2024 & Matters Arising:** The minute of the meeting on the 13th May was approved. Yvonne Finlayson went through the Matters Arising Report and noted that the action on Going Concern has been followed up with a paper to the Committee at Item 8.3 below. It was noted that Wylie & Bisset had been re-appointed as the Internal Auditors and that Blue Bus had been awarded the transport contract following full procurement processes.

**5. SLC ARC Update: Elaine McKechnie highlighted the following areas from her report:**

* **Updates relating to external and internal audit work:** The SLC Committee was asked to review and agree the anticipated accounting policies for use within the financial statements. An update was proposed to fixed asset policies, enabling some capital funding to be expensed to the income and expenditure account if it is for capital purposes, in line with the SFC’s more stringent guidance that has been issued for 2023/24 and beyond.
* **The Audit Recommendations Monitor:** SLC has made some progress in addressing the recommendations made in previous audit assignments. There are 24 outstanding recommendations on the monitor, covering 3 Cyber Security, 2 Health & Safety, 1 Risk Management, 5 Staff Recruitment & Retention, 4 Budgetary Control, 2 Student Support Funds,3 Student Activity (Credits), 2 Publications and Communications Audit and 2 Procurement and Purchasing/Creditors. Most of the Cyber security recommendations have now been closed. SLC has also responded to internal audit progress reviews during the summer of 2024 and this has helped to either close out recommendations or amend targeted completion dates with renewed focus.
* **Risk Management:** Of the fifteen risks identified, the Committee noted that five scores had increased while two scores have decreased. The main challenges for SLC continues to be financial sustainability and the ability to provide a robust learner experience because of ongoing strike action.
* **VAT on Utilities:** A full report would be made to the committee with final figures.
* **Audit & Risk Committee Terms of Reference**: An updated version was presented to the Committee for approval.
* **Pensions Update**: The SLC Committee received a verbal update of the progress of the work being undertaken on the plan for correction of pension contribution errors for part time staff as advised at the last meeting of the Committee in May 2024.
* **Industrial Action Update:** The Committee received a verbal update of the latest position regarding industrial action, noting key points from recent meetings with Colleges Employer Scotland (CES) and Trade Union Representatives seeking to bring a resolution to the pay dispute imminently.

 Anti-Bribery Policy: The SLC Committee was asked to approve the Anti – Bribery policy.

* **Risk Management Strategy Discussion:** The Committee was asked to consider the proposal for a risk management strategy. The paper set out the key principles of an overarching high- level risk strategy. It also considered a strategy for determining risk appetite and establishing a system of assurance mapping which will be taken forward at a Board Strategy Day planned for 19th November 2024.

**6. Technical Bulletin Audit Scotland April –June 2024:** Iain Clark noted that there was no specific section for the FE/HE sector. He highlighted the following:

* The local government section was mainly concerningReinforced Autoclaved Aerated Concrete (RAAC) and the treatment of fixed assets in terms of re-valuation, depreciation and assets for sale. There is also the treatment of Accounting Standards that have been issued but not yet adopted.
* There is ongoing discussion on the valuation of land and buildings at NCL and on pension disclosures. Louisa Yule said that the re-valuation of land and buildings would be a lot of work. Iain Clark agreed because of the requirement for component valuations where, for example, the land, roof and building sub-structures had to be separately valued.
* The reported fraud issue at section 6 which relates to overpayment of shielding monies to an employee during Covid 19 did not apply to NCL.

**7. Audit Scotland Audit Update:** Louisa Yule reported that there were ongoing discussions withLynne McKenzie about a range of audit matters including pensions and staff costs. It was hoped that the preparatory work that Audit Scotland had undertaken would make this year’s audit go smoothly. Ann Baxter and Ronnie Gilmour would discuss the Performance Report. The EIS/FELA strikes had impacted on receipt of results data and this may affect the Report. Apart from this, a timetable had been set and delivery of the report information was on schedule. Iain Clark said that the internal deadlines had been brought forward and SLC and AMCOL had been consulted and agreed to the earlier submission of information. Louisa Yule said that Audit Scotland were happy to look at information in advance.

**8.0 Risk Register**

**8.1 Regional Risk Register:** Ronnie Gilmour presented the Regional Risk Report. There are a total of 20 Strategic Risks logged as at the Regional Strategic Risk Management Group (RSRMG) as on the 21st August 2024. There is no change to 18 risks. Risk K – Inability to maintain Quality Standards moves down to 6 from 8. Risk L – Failure to meet SFC credit targets has been increased up from 5 to 10 due to uncertainty around recruitment because of industrial action. Two risks are above the groups threshold level and are, therefore, subject to Control Management Plans: Financial Risk A “Unable to maintain operating budget while delivering a high quality, relevant and responsive education” – very high. Financial D: “inability to secure appropriate levels of funding to respond to operational and strategic priorities” – very high. The risks from the global supply chain continues to be monitored as does the costs of gas and electricity. Risk S: the ongoing costs include legal costs and these costs equate to around 30% of the overall expenditure on the cladding system for the Motherwell Campus.

**8.2 SLC Register:** There are a total of 16 risks registered – 1 more than in April. There are 5 risks that have moved up (2,3,5,12 and 15) and 2 risks have moved down (10 and 11) The remaining 9 risks remain the same as at April 2024.

**8.3 Going Concern Principles and Guidance**

**8.3.1** Iain Clark informed the Committee as follows:

* He had raised the issue of the Going Concern with the Finance Directors Network and the network was unaware of any challenges to date on this from the SFC or from OSCR.
* He had spoken to and corresponded with OSCR about the matter of Going Concern in a public body and they had advised that this issue was a matter for the college’s auditors and for the regulator i.e. SFC. There was revised guidance in April 2024 on a Notifiable Event but this is excluded when there is another regulator. The SFC, in turn, advised that this is a matter for the auditors.

**8.3.2** Item 9.3.2 from the minute at the last meeting of the ARC from the 13th September 2024 states:

* Financial sustainability as defined in the Code of Audit Practice is concerned with whether the public body has effective and appropriate arrangements in place to deliver its services in the medium and long term.
* If a business in the private sector operates in a manner that is not financially sustainable, eventually it will be forced to cease to operate; it will stop being a going concern. The concepts are therefore inextricably linked.
* Auditors in the private sector therefore generally do not distinguish financial sustainability from going concern. They report on going concern (encompassing financial sustainability) in the Independent Auditor’s Report.
* The relationship between the concepts of going concern and financial sustainability is different in the public sector. This is a product of the continuity of the delivery of public services compared with entities in the private sector that may have to stop trading and be liquidated.
* In the public sector, the government can intervene to increase funding or adopt a different delivery model. The services would only cease to be delivered if the government changed policy and decided to stop their delivery. There is always a reasonable lead time for such an event.
* The financial sustainability of a body and the services it provides is nevertheless important in the public sector. It is likely to be of greater public interest than the application of the going concern basis of accounting.
* Even in more routine times, cost pressures and reduced funding in real terms can cause financial stress and create risks to a public body’s financial sustainability. This has been exacerbated by the impact of Covid-19. However, this has no direct impact on the basis of accounting.
* The Code of Audit Practice requires auditors to conclude on the effectiveness and appropriateness of a body’s arrangements for financial sustainability as part of the wider scope of public audit.
* Auditors report their conclusion in their Annual Audit Report. Even where there are serious weaknesses in a body’s arrangements and remedial action is required, it does not impact on the going concern basis of accounting. Auditors do not report matters concerned with financial sustainability in the Independent Auditor’s Report.

**8.3.3** The ARC noted the views from Audit Scotland, OSCR and the SFC in the papers submitted to the Committee. In essence, as per Audit Scotland the College as a public body can continue to use the Going Concern concept unless there is any doubt around the **continuation of service, irrespective of who delivers that service.**

***Action 1: Iain Clark will write back to OSCR for further clarification re Financial Sustainability and any liability of charity trustees in the case of a public body.***

***Action 2: The Board will also receive the report on Going Concern at its meeting on the 7th October 2024***

**9. Horizon Scanning – Progress NCL Forward Plan**

**9.1** The Committee was updated as follows:

* The undergraduate school, which is in partnership with the University of the West of Scotland (UWS), is going very well having gone up from an original 145 places up to 200 and with the potential next year to be up to 450 places. This will bring additional fee income into NCL with 75% of funds coming to NCL and 25% to UWS. This is about £5,000 per student in the undergraduate school. The numbers in the graduate school are a considerable achievement given the amount of time to recruit. The recruitment started after the UCAS deadlines.
* There is a new appointment of an interim Dean for Digital Learning and this is to build a platform for digital learning courses starting with the BA Business and Marketing. This will add 100 places on top of the undergraduate school numbers.
* The VS scheme was taken up by 29 staff: equivalent of 23.88 full time staff. There has been no confirmation from the SFC that they will cover the costs of the scheme in this instance. They have not covered any of the costs of recent VS schemes.
* The SFC have confirmed that there will be no clawback for underspend in the Child Poverty Grant and this saves c £85k.
* There is a consultation on the future of the Regional Strategic Bodies. Both colleges will not resist dissolution but the issue is what comes next and that it is better than what went before and marks an improvement to current arrangements.
* There is also no strategic vision for the sector in a harsh fiscal environment. There needs to be a radical review which is currently not in sight.

**10. Internal Audit Reports**

Stephen Pringle presented the reports as follows:

**10.1 Follow Up Review:** the opinion in the report is as follows:

“We can provide a substantial level of assurance that the College has endeavoured to implement internal audit recommendations made in 2022/23 and earlier years. This is highlighted as 23 recommendations made which have been fully implemented, 2 recommendations are partially implemented (not yet due per revised due date), while 7 are partially implemented and beyond their due date”.

The recommendation is the report is Substantial.

**10.2** There was discussion about the updating of policies and the keeping of a central register of policies and update times. Iain Clark said that most of the College-wide policies were on the CLAN. Ann Baxter advised that there are departmental lists which are collated centrally by the Quality Team.

***Action: The BS will follow up with the Registrar on the provision of a central list.***

**10.2 Annual Plan:** Stephen Pringle presented the Internal Audit Plan for the next three years following on from their appointment as the Internal Auditors. They also offered Board and Committee training as part of the contracted services.

***Action: The BS to follow up with the Committee and Board Chairs.***

**11. Approval of Publication of Committee Papers:**

**11.1** The committee approved the publication of the agenda, the minute, the Matters Arising paper, The Technical Bulletin and the Going Concern Papers.

**12. AOB:** There was no other business.

**13. Date of Next Meeting:** The date for the next scheduled meeting is **Monday 2nd December 2024 at the Cumbernauld Campus**.