**Approved Minute Audit and Risk Committee**

**4.00 pm 5th December 2022 – Blended Meeting**

**Face to Face in the Boardroom, Cumbernauld Campus and via Zoom**

**Present: Face to Face** Yvonne Finlayson (Chair) and via Zoom Ryan McRobert and Alastair Rennie

**In attendance: Face to face:** Ann Baxter, Iain Clark, Christopher Moore, Diane McGill, Penny Neish, Ronnie Smith, Matthew Smith and Via Zoom Suzie Graham, Keith McAllister (Head of Finance, SLC), Lucy Nutley (Mazars), Stephen Pringle (Wylie & Bisset), Alan Sherry (Acting Principal SLC).

1. **Chair’s welcome:** Yvonne Finlayson welcomed all to the meeting. The Board Secretary informed the meeting that it would not be quorate until Ryan McRobert and Alastair Rennie joined the meeting. Both had notified that they would be delayed joining the meeting and both joined by Item 6. The meeting was then quorate.

**2. Apologies for Absence:** There were apologies from John Elliott and Craig McLaughlin (Chair SLC ARC).

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

**4. Minute of meeting 5th September 2022:** The minute of the meeting was approved.

**5. Matters Arising from Minutes**

**5.1** The Lanarkshire Board approved the schedule of meetings for 2023 at the meeting on the 3rd October 2022. These dates have been copied to the SLC Board Secretary and he has now sent dates for SLC meetings to the Board Secretary of the Lanarkshire Board.

**5.2** At the meeting of the Lanarkshire Board on the 3rd October 2022, Ronnie Smith had requested reconfirmation from the Board that it was content for the SLC GIP to be signed off as it referred to past events and SLC had a forward plan to look at continuous improvement as the next stage in its governance development. The Board agreed to this proposal and to receive reports on SLC’s progress. The Lanarkshire ARC noted the Board’s approval of this action.

**5.3** The Board Secretary informed the committee that both Board Secretaries have agreed to look at the possibility of a joint training session in January 2023 which will include a session on regional legislation and at other joint training in the future.

**5.4** Yvonne Finlayson noted that a response had been made to the letter from Craig McLoughlan and thanked Ronnie Smith for his help with the response.

**6. SLC ARC Update**

**6.1** Keith McAllister and Alan Sherry informed the Lanarkshire ARC that the SLC accounts are finalised apart from the Governance Statement. There is still ongoingdiscussion between the SLC ARC Chair with Mazars about the Governance Statement. Alan Sherry informed the committee that it may not be possible to finalise the Statement following the SLC Board meetings scheduled for the 6th and 8th December 2022 and there may be further delay pending consideration of the investigations reported to the SLC Board.

**7. SLC Governance Assurance Framework Update:** As noted at 5.2 above the SLC GIP has been signed off andSLC has a forward plan to look at continuous improvement as the next stage in its governance development. This will be taken forward in conjunction with the internal auditors Henderson Loggie. Keith McAllister noted the time pressure that synchronising SLC and Lanarkshire Board meetings could have in producing financial reports for SLC meetings that would then be earlier in the SLC Board cycle and also for the RSB.

**8. SLC 2021/22 Audit and Financial Statements Update:** This was discussed at Item 6.1 above.

**9. Technical Bulletin Audit Scotland July 2022–September 2022**

**9.1** Iain Clark highlighted the following from the report:

* **Page 5 All Sectors –** Professional Support has published a Technical Guidance Note (TGN) to provide auditors with guidance on examining and reporting on the 2020/21 Whole of Government Accounts returns of public bodies in Scotland. The WGA Return is currently prepared by the SFC on behalf of the Sector.
* **P 17** Professional Support has published Module 14 of TGN 2022/1. The TGN is intended to inform auditors’ judgement when identifying and assessing the risks of material misstatement in the 2021/22 annual report and accounts of central government bodies generally.
* **P 18 Para 47** The Scottish Funding Council (SFC) has issued their Accounts Direction for Scotland’s Colleges 2021/22. The direction requires colleges to comply with the SORP in preparing their financial statements and include a Performance Report and Accountability Report in their annual report and accounts in accordance with the FReM.
* **P 18 Para 48** Specific mandatory disclosure requirements for colleges are set out in Appendix 2. This impacts on the performance report.
* **P29** sets out fraud cases related to payroll overpayments. NCL had an internal audit of payroll and no significant issues were identified and there are no concerns that overpayments might be made at NCL in relation to the frauds in the Report.

**10. RSB Consolidated Accounts**

**10.1.1 Annual Audit Report 2021/22:** The regional report is in draft pending discussions and agreement on the SLC Governance Statement. Lucy Nutley presented the Draft Regional (NCL) Annual Audit Report to the Committee as follows.

* **P 4 & 5** The auditorsanticipate an unqualified opinion, without modification, on the financial statements, on regularity and on other requirements (the remuneration and staff report, performance report and governance statement). The wider scope work concludes that there are adequate arrangements in place for Financial Management, Financial Sustainability, Governance and Transparency and Value for Money. The auditors have a modified conclusion in the wider scope work on financial sustainability considering that the college’s ability to remain financially sustainable over the medium to longer term remains a significant risk. However, this is in the context of sector wide financial sustainability issues.
* **P6** shows the status of the audit work which includes final reviews and the finalising of the Governance Statement
* **P 13** Satisfactory assurance has been gained in respect of the valuation of land and buildings
* **P 14** valuation of pension liabilities – satisfactory assurance has been gained in respect of the valuation of the colleges share of the Strathclyde Pension Scheme.
* **P 15 Significant matters discussed with management**
* It was noted that at 31 July 2022 the College’s share of the Strathclyde Pension Fund was recorded as a notional surplus as the value of the defined benefit obligation was less than the fair value of the plan assets at that date, meaning that the pension liability usually recorded is now a pension asset. The auditors have had discussions with management as to the most appropriate accounting treatment and disclosure of the pension asset.
* During the course of the audit, the financial position of the College changed resulting from a late announcement from the Scottish Funding Council (SFC) and the college seeking clarification on the announcement that declared that Colleges who had not met their credit targets could use a 2% tolerance for missed credit targets for core plus deferred credits. This resulted in the College being able to release around £819k of a credit provision that was intended to be returned to SFC, into income. The impact has increased income but the reported adjusted operating position has remained as a deficit as at 31 July 2022. This late guidance also affected other Colleges being audited by Mazars.
* At the time of writing discussions are still ongoing between external audit and South Lanarkshire College regarding their Governance Statement. Until this is agreed, New College Lanarkshire are unable to finalise the Regional Governance Statement.
* **P 18** – shows the adjusted mis- statement resulting from the late announcement from the SFC re credit targets noted at point 2 in the P15 comments above. Mazars stressed that this was as a consequence of the lateness of the guidance issued by the SFC.
* **P 34** sets out the audit fee – an additional audit fee is being considered following delays to the completion of the governance statement at SLC and this has an impact on the NCL accounts. Mazars will report to the Lanarkshire ARC if there is a requirement for extra audit fees.
* **Appendix 1** sets out the Letter of Representation and Appendix 2 the unqualified opinion.

**10.1.2** Lucy Nutley re-iterated her thanks to the Finance Team and all who were involved in the accounts process for their help over the years and Iain Clark, in turn, thanked Lucy and her team for the work that they had done with NCL on the accounts over their period as external auditors. Yvonne Finlayson commented that she thought that the format of the report was very good and also thanked the external auditors for their work.

**10.1.3** Alan Sherry commented that he thought that the interchanging use of the words NCL, College, Regional Strategic Body and Lanarkshire Board was confusing. Ronnie Smith commented that the current legislation made the NCL Board the Regional College Board and the Regional Strategic Body i.e. the Lanarkshire Board.

***Action: Lucy Nutley agreed that the external audit team would review use of terminology in the report.***

**10.2 RSB Consolidated Accounts 2021/22**

**10.2.1** Iain Clark presented the draft statements noting that they were finalised apart from tidying some wording around disclosures, any post-balance sheet events, and for the Governance Statement which has to reflect the Governance Statement from SLC which is in the process of being finalised. He highlighted the following:

* **P 23** It was noted that the Underlying Operating Position is (£355k) for the Region and (£1,788k) for NCL. NCL plus its direct subsidiary Amcol made a combined Underlying Operating Deficit of (£1,432k). The deficit at NCL was mainly as a result of an unfunded VS scheme which cost a total of **£1,719,656 (c £1.145m recorded in 2021/22 Accounts)** in order to bring **a** predicted future annualised salary saving of **£2,517,766**, including on costs (i.e. Employer’s National Insurance and Pension contributions).
* **P 61** This shows the Consolidated Statement of Comprehensive Income and Expenditure for the year ended 31st July 2022. The balance sheet remains strong overall due to the Fixed Assets and Pensions Asset, however Working Capital is a concern.
* **P 92** This page shows the Adjusted Operating Position on a Central Government Accounting basis. Under the FE/HE SORP, the Region recorded an operating deficit of £7,844k for the year ended 31st July 2022. After adjusting for the non-cash allocation provided under Government rules, the Region shows an “adjusted” deficit of £6,784k on a Central Government accounting basis. It was noted that the key accepted metric for Audit Scotland and the Scottish Funding Council is the Underlying Operating Position. The Underlying Operating Position deficit of £355k adjusts for the actual depreciation less deferred capital grants as well as for non-cash pension adjustments, Transformation Funding and any non-government capital grants, in line with Scottish Funding Council guidance.

**10.3: AMCOL Financial Statements 2021/22 T**he Committee noted the AMCOL Financial Statements which are separately audited and approved by the AMCOL Board. The Income & Expenditure Account recorded a surplus of £556,478 including the gain on revaluation of assets.There is also a healthy balance sheet with cash funds of c£1.8m and net cash provided by operations for 2021/22 was £414,880.

**10.4** The Regional Financial Statements have a Governance Statement that cannot be completed until the Governance Statement is finalised at SLC. The Regional Accounts are, therefore, still in draft.

***Decision: The Board will receive the Draft Annual Report and the Draft Financial Statements for information at its meeting on the 12th December 2022.The Lanarkshire ARC agreed to recommend to the Board that it defers the approval and signature of the Regional (NCL) Annual Audit Report and consolidated Financial Statements 2021/22 to special meetings of the Lanarkshire Board ARC and Finance Committees and the Board with the meetings to be held in order to meet the accounts submission deadline.***

**11. NCL Audit Committee Annual Report:** The Board Secretary informed the Committee that this was in progress but could not be completed without the internal auditors Regional Assurance and Annual Reports and the final opinion of the external auditors.

**12. Regional Risk Register**

**12.1 Regional Risk Register:**

Matthew Smith presented the Regional Risk Report to the Committee and highlighted the following from the report:

* There are a total of 21 Strategic Risks logged as at Regional Risk Strategic Management Group (RSRMG) on 21 November 2022.
* **Risk Movements:** No change to 19 risks. Risk K ‐ Inability to maintain quality standards ‐ risk and residual risk score moved down due to good progress being made in that area. New Risk X added ‐ Risk of Power/Data failure to College buildings, student and staff homes due to energy rationing.
* **Six risks are above the committee's threshold level and therefore are subject to Control Action Planning. These are:**

**a)** Financial: "A" Unable to maintain operating budget while delivering high quality, relevant and

responsive education ‐ very high (Above Amber [high] threshold

**b)** Financial: "D" Inability to secure appropriate levels of funding to respond to operational and strategic

priorities ‐ very high (Above Amber [high] threshold)

**c)** Productivity: "H" Unable to deliver SFC Credits Targets ‐ high (Amber [high] threshold)

**d)** Student Experience: "L" Failure to improve student retention and achievement ‐ medium (Yellow

[medium] threshold)

**e)** Governance: "J" Failure to establish and implement an effective regional governance model ‐ medium

(Above Green [low] threshold)

**f)** Compliance: "V" Failure to hold and manage personal data appropriately in complaince with the

requirements of the General Data Protection Regulations (GDPR) ‐ low (Green [low] threshold

* **Escalation of Risks:** Estates ‐ increasing cost of gas and electricity.
* **Under observation / analysis:** a) Global Supply Chain Issues (including Brexit).
* **Regional Business Plan Risk Register:** a) There are a total of 10 risks logged b) There are no risk movements.

**12.2 SLC Risk Register: The SLC Risk register is attached.** There are a total of 13 risks logged. One risk moves up. One risk moves down. Eleven risks remain the same.

**12.3** The Arc noted the Regional Risk Report.

**13. Horizon Scanning - Future Issues and Opportunities.**

**13.1** Christopher Moore highlighted the need to keep strategic focus with everything that is currently going on. Iain Clark highlighted that the Scottish Government will publish its draft budget on the 15th December 2022 which is likely to be very challenging for the college sector along with other public bodies in Scotland. Ann Baxter highlighted savings that could be made in the National Insurance projections given the UK Government’s withdrawal of the proposed NI increases.

**14. Internal Audit Reports**

**Stephen Pringle presented the internal audit reports as follows:**

**14.1 Nursery Provision: Overall Conclusion is substantial**

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| “We can provide the College with a substantial level of assurance surrounding the arrangements adopted to manage their nursery provision both in-house and through the AMCOL model. Our review identified that it would be more profitable for the College to move all nursery requirements to the AMCOL model, however there are several requirements for the College to maintain these in-house nurseries to serve their students’ needs and Union requirements. We have identified several good practice points and 2 medium grade recommendations for improvement that will aid in the College's in-house nursery provision and may reduce the projected deficits.”  |

**14.2 Review of College Catering: Overall Conclusion is weak**

“We have provided a weak level of assurance surrounding the controls in place to manage their Catering provision. Specifically, we have raised a total of 10 recommendation which includes 4 high grade recommendations, 3 medium grade recommendations and 3 low grade recommendations.

The significant weaknesses we identified surrounded the standardisation of Catering provisions across campus, the development of College Catering strategies and action plans, developing formal KPIs for their Catering provisions and implementing a robust reporting structure and finally, cross campus communications to facilitate the sharing of good practice and resources. “

I Clark commented that the current manager had inherited these issues which had been exacerbated through the pandemic, and the commissioning of the Audit was the first step in highlighting and addressing the weaknesses. Y Finlayson suggested that some of the target dates for completion should be extended.

**14.3 SSF Report - The overall conclusion is as follows:**

“We have examined the books and records of New College Lanarkshire and have obtained such explanations and carried out such tests as we considered necessary. On the basis of our examination and of the explanations given to us, we report that the information set out in these forms is in agreement with the underlying records. We also report that, in our opinion, the College used these funds in accordance with the guidance issued by the SFC. “

**14.4 EMA Report- The overall conclusion is as follows**

“We have examined the books and records of New College Lanarkshire, including evidence of spot checks of five per cent of applications and payments, with a minimum sample size of five students, and have obtained such explanations and carried out such tests as we considered necessary. On the basis of our examination and of the explanations given to us, we report that the information set out in these forms is in agreement with the underlying records. We also report that, in our opinion, the College used these funds in accordance with the guidance issued by the SFC. We are satisfied that the systems and controls of the administration and disbursement of these funds are adequate.”

**14.5 Credits Report -The overall conclusion is as follows**

“The College has reasonable procedures and controls over the collection of data for the Credits return and assurance can be taken that the Credits count for the College is not materially mis-stated. The systems used by the College are satisfactory. The recommendation arising as a result of our review is included within Appendix C.

We can also confirm that from our review of the 4 recommendations raised in 2020/21, we found that 3 of these had been fully implemented with 1 not implemented. See Appendix C and D of this report for further details.

The College’s credit target for the academic year 2021/22, agreed between the SFC and the College, was 136,139 credits compared with an actual total of 132,823 credits. A summary of the variances is included in the table below. “

**14.6 Update Regional Assurance and Annual Report:** Stephen Pringle informed the Committee that Wylie & Bisset were awaiting information from the SLC internal auditors Henderson Loggie and would complete these reports when they had the information. These reports are also key to completing the Lanarkshire ARCs Annual Report. Keith McAllister and Alan Sherry informed the committee that there had been a problem with the transfer of data to the SFC and that SLC was in dialogue with the SFC and Henderson Loggie to resolve this issue as quickly as possible. The problem is at the SFC end with data being lost as it was transferred from the college to the SFC and that this is also a problem for other colleges in the sector where the same loss of data has been incurred.

**14.7** The Lanarkshire ARC noted the reports and that the catering report would be followed up by management.

**15. Approval of Publication of Committee Papers:** The Committee approved the publication of the Agenda, the minute of the meeting of the 5th September 2022 and the Audit Scotland Technical bulletin. The Accounts will be published in due course**.**

**16. AOB:** Ronnie Smithstated thathe hoped that the accounts would be signed off inJanuary 2023 and wished all the best for the festive season.

**17. Date of Next Meeting:** The date for the next scheduled meeting is **Monday 20th February 2023**.