**Audit and Risk Committee Minute**

**5.00 pm 2 December 2024 – at the Motherwell Campus (venue changed) and Via Zoom**

**Present face to face: Yvonne Finlayson, Catherine Pollock**

**In attendance face to face: Christopher Moore, Ann Baxter, Iain Clark, Ronnie Gilmour, Diane McGill, Lynn McKenzie,Jack Kerr (Audit Scotland), Louisa Yule (Audit Scotland), Penny Neish, Ronnie Smith, Elaine Turkington.**

**Via Zoom: Kellyann McGraith, Elaine McKechnie, Stella McManus, Stephen Pringle (WBG), Alastair Rennie, Shelagh Stewart (Audit Scotland), Tricia Meldrum (Audit Scotland).**

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

**2. Apologies for Absence:** as noted above.

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

**4. Minute of meeting 2 September 2024.** The minutes were agreed.

**5. Matters Arising:** Yvonne Finlayson went through the Matters Arising Report. Iain Clark reported that he had contacted OSCR on the issue of Financial Sustainability and Trustee Liability. The response he had received was that as long as the Board acted in good faith on behalf of the college as a charity, and complied with the Trustee guidance, this would fulfil OSCR’s requirements. An update will be given to the RSB at its next meeting (10th December 2024).

**6. SLC ARC Update: Elaine McKechnie highlighted the following areas from her report tabled at the SLC ARC on 15 November 2024:**

**Annual Audit Report**: Audit Scotland attended the meeting and presented their draft Annual Audit Report, noting no material concerns and their expectation that the final audit opinion would be unmodified. However, the College still has some work still to do within the fixed asset register to ensure accuracy around asset listings. It was agreed by College Management that this would be reviewed across 2024-25.

In conjunction with the SLC Finance Committee, the SLC ARC noted an operating deficit of £1,677k and an adjusted operation position of £378k surplus.

The two SLC Committees were advised of the ongoing issue in accounting treatment of Job Evaluation between the SFC and the College Sector but were assured that appropriate advice and guidance had been sought from Audit Scotland to ensure accurate disclosures were incorporated that would be in full compliance with relevant accounting standards and Statement of Recommended Practice (SORP).

**Internal Audit update:** Henderson Loggie provided an update of the progress on internal audit assignments, sharing their final report from the Student Funding audit and the Student Activity (Credits) Audit; two low risk recommendations being noted. There were no major concerns.

No concerns were noted over the adequacy of the control and governance arrangements; the pension contribution error was noted as an ongoing project which will be concluded in 2025.

The internal auditors noted that only 17 out of the previous 24 audit recommendations had been fully implemented but recognised that many of the residual recommendations had not yet passed their expected completion dates while others were contingent on training and new system implementations being operational prior to fully demonstrating completion of the recommendation.

**Rolling Audit Monitor:** The College has made progress in addressing the recommendations made in previous audit assignments. 5 recommendations have been closed off during the last quarter.  There are 23 outstanding recommendations on the monitor. None of these are high priority. There are no concerns.

**Risk Management:** SLC has adopted the template provided by NCL. This has enhanced SLC’s risk profile.

The Committee noted some of the key themes that had been discussed at the SLC risk management group when exploring any changes to risk scores. Credit target achievement is looking encouraging for the year at 85% at this stage; financial risks continue and the NI increase impact of £300k has been assessed; there are reputational risks from the employment tribunals ongoing but this has been supported with internal comms by Chair of Board/Principal and a Media facing Comms plan being in place, as well as progress on maintaining quality learning and teaching through our Operational Planning review process.

**The draft report of the ARC to the SLC Board:** The Committee noted two historic operational failures with payroll controls where resolution is now underway and will be completed by February 2025, and incorrect payment of VAT % on utility bills which has been rectified through dialogue with the utility company.

**7. SLC 2023/24 Audit and Financial Statements update:** Elaine McKechnie advised that SLC would be signing their accounts today and thanked Audit Scotland and NCL staff for their help throughout this process.

In their Annual Audit report Audit Scotland has not identified any concerns but recommended improvement of the fixed assets register. SLC is happy to comply with this. Performance governance, remuneration and staff reports have shown improvement.

SLC accounts are in full compliance and show an operating deficit for 23/24 of (£1.677m) and an adjusted operating surplus of £378k for the period.

**Job Evaluation**: there has been a technical dispute between SFC, the college sector, and its external auditors in respect of the intended treatment of job evaluation funding. Ultimately the colleges were required to accept this liability into college accounts, it having previously sat with SFC/Scottish Government.

**Cash Flow statements**: This is an area SLC will monitor very closely in the future, although there are no major concerns.

**8.** **Technical Bulletin Audit Scotland July 2024- September 2024:** Iain Clark noted that in the College section of the Bulletin that SFC had issued the Accounts Direction for Scotland’s Colleges 2024 together with guidance notes on SORP compliance and the need to include a Performance Report and Accountability Report in their annual report and accounts. Jack Kerr commented that in future colleges would be required to report further on their sustainability activities. Iain Clark referred to the Job Evaluation change in accounting which was later superseded.

**9. Audit Scotland Report ‘Scotland’s Colleges 2024’:**

**9.1 Shelagh Stewart (Audit Scotland Audit Manager)** spoke to the Audit Scotland Report and noted the key messages:

* College funding had decreased by £32.7m in cash terms in 24/25. Colleges are forecasting reduction in cash balances which could risk them continuing in their present form.
* Colleges are reducing staffing through voluntary severance schemes.
* The financial pressures and reduction in staffing may prevent colleges delivering the services they have in the past.
* Reform of the post school education landscape and associated revised funding model have not yet been implemented further hindering college development and innovation.

**9.2** Audit Scotland sought clarity from SFC on their expectations of colleges and implementation of the reform of the colleges/schools’ landscape.

**9.3** The ARC was advised that this report had been discussed at the Parliamentary Audit Committee (PAC) and the recommendations accepted by the Scottish Government and SFC. Yvonne Finlayson asked what Audit Scotland viewed as next steps. Shelagh Stewart said that Audit Scotland had still to decide its next actions but that it will report again next year on financial sustainability issues in the sector. Tricia Meldrum, Audit Scotland, said they would see what action the PAC required before the Auditor General decides a way forward.

**Note: Shelagh Stewart and Tricia Meldrum left the meeting after their presentation.**

**9.4** Ronnie Smith welcomed the report and the interest being shown by the Auditor General in the financial situation the college sector is in and noted that the report clearly defined the major issues of concern in the sector, including Government action, but that these issues were not new. Because of the funding model the sector had not been encouraged to work collaboratively. Stella McManus agreed and added that while major consultations on the sector had taken place over the summer, no indication of the outcome of any of them had been intimated to colleges. The sector needs to be made aware of the consultations before being able to move forward and develop new working partnerships.

**9.5** Christopher Moore made 2 points:

* That the general content is clear and sensible;
* However, he referred to P13 and the emphasis in the section on NCL about VS and a precarious liquidity position. There was no context to these negative statements although numerous attempts had been made by the NCL Chief Resources Officer to have context included, alongside the inclusion of Amcol’s figures. NCL’s deficit (in AY 22/23) had been linked to reshaping the workforce over the last 4 years. All 4 of the voluntary severance schemes had been funded by the college. The year on year cost was significant. Such reports need to recognise why (deficit) situations occur; NCL has lost roughly 20% of its staff over the last 4 years. The impact on individuals has been significant. There are many people doing excellent work and the impact of naming colleges without any context of the wider situation is unhelpful and detrimental to a positive work ethic. Christopher Moore said that there is a responsibility to have awareness of the impact of such a report on the mental health of those striving to do their best for the students. Staff had come into his office very worried about their jobs after the publication of the report.

**9.6** Yvonne Finlayson asked where the guidance will come from to help colleges out of this situation and again commented on the credit funding model which encourages competition, not collaboration. Yvonne then remarked on the impact of the report and how it affects college staff providing a positive experience for students. Ronnie Smith noted that colleges need targets and objectives from the Scottish Government and SFC to work towards. Iain Clark said that pre-publication Audit Scotland should go back to colleges being named negatively to give them opportunity to provide background/context as opposed to simply number checking.

**9.7** Jack Kerr said that some of the points in the Auditor General’s report referencing NCL came from the Audit Scotland Annual Audit report in 22/23. The Auditor General’s report draws on the Annual Audits of the previous year so there is a direct link between them. Iain Clark recognised this, however, there is context and opinion in the Annual Audit Reports that helps understanding. Louisa Yule thanked the ARC for their feedback.

***Action: Ronnie Smith would write to the Auditor General about the point raised about the lack of context and the impact of negative statements without context.***

**10. NCL and Consolidated Annual Accounts**

**10.1 Draft Annual Audit Report 2023/**24: Louisa Yule presented the covering letter which accompanied the NCL Annual Audit Report and said that she expected to be able to issue the final report for the RSB meeting on 10 December 2024 in the next couple of days subject to a few minor amendments. She said that she expected to be able to issue an unmodified opinion on the accounts. She noted that the outstanding matters set out in paragraph 10 have now been cleared.

**10.2** Louisa commented that there had been strong and good engagement this year over the audit period and she thanked the college staff for their positive engagement with the audit process.

**10.3** The Report has tried to recognise NCL as a single entity, and NCL with AMCOL figures included being the NCL Group. Regional Group figures include SLC too.

**10.4** NCL’s underlying operation position has significantly improved from last year: it shows a deficit of (£0.243m) to the year ending 31 July 2024, deficit of (£3.627m) in 2022/23. Including AMCOL (£527k surplus) the college group reported an underlying operating surplus of £0.284m to July 2024. The college is projecting a significant improvement in the underlying operating position of £0.650m surplus in 2024/2025.

**10.5** Louisa Yule referred the Committee to Exhibit 3 in the report at P13-16 and this sets out significant findings and key audit matters and the resolution in the following areas:

* Value of Fixed assets – finance costs included in the valuation and had to be taken out with subsequent reduction in fixed asset valuation. This was a change to previously accepted valuation methodology.
* Land at Motherwell and the Kirkintilloch Campus – 125 - year lease at Motherwell but not owned. Agreed accounting treatment from 2007 now changed at Audit Scotland direction and subsequent reduction on fixed asset valuation.
* The accounting treatment of job evaluation – a late accounts directive from the SFC changing the accounting treatment.
* Accounting for Fixed Assets – improved record keeping recommended for assets such as laptops in the laptop library.
* Pension Provision re future liabilities for early retirees – provision revised to account for updated age and life expectancy figures.
* Pension Balance - revised actuarial valuation to take accounts of pension asset ceiling in the previous year.

**10.6** The Action Plan in Appendix 1 of the NCL Audit Report details NCL’s response to the auditor’s recommendations in 2023/24. Many of these have been addressed but a few remain to be completed, in particular a comprehensive Policy Review Register where Audit Scotland recommended the tightening up of version control. They will comment on action related to the JISC ICT Review in next year’s audit report.

**10.7** Audit Scotland commented that the NCL Action Plan is more positive and innovative than last year’s.

Iain Clark thanked the auditors for their help and collaboration with the annual audit. He also commented that he did not agree with the new treatment of the Motherwell land although recognised the counter-position, job evaluation which had the implied potential to shift the responsibility from the SG and create a liability for the colleges with no corresponding asset even though they didn’t have the funding which was withheld from Colleges on an annual basis and was now being held by the Scottish Government. The balance sheet was significantly weakened too. The College was taking legal advice on this point and Christopher provided suggested wording for inclusion in the accounts. Elaine McKechnie said that SLC had the same view on this matter.

**10.8** Yvonne Finlayson thanked all involved for their significant efforts to pull the NCL accounts and audit together as well as producing Consolidated Accounts which also include SLC. On the NCL Policy Register she said that there should be a robust system and a report made to the ARC annually. Elaine Turkington advised that there is a Policy Register held centrally on the CLAN to which all departments have access. Departments have the responsibility for their own areas. Elaine offered to clarify the position for the auditors. Louisa Yule acknowledged this response but added that more clarity would be welcome. Diane McGill noted that the Board Standing Orders and Scheme of Delegation had been updated since 2016 and had gone to the Board in June 2019 and in June 2023. They had been updated but it was an older version that was still on the web.

***Action: There will be discussion with the College Registrar and the Board Secretary on bringing the policy register and dates for policy review to the ARC on an annual basis.***

**10.9** Ronnie Smith said that there was no clear indication from the Scottish Government as yet on their decision regarding the dissolution of the 2 Lanarkshire colleges and therefore whether consolidated accounts would be required next year. Iain Clark advised that as the Academic year has already started (August 1st 2004) there would at least need to be consolidated accounts for 2024/25 up to when dissolution takes place or 31st July 2025 depending on the earlier date. Any dissolution date beyond 31st July 2025 would require Regional accounts for 2025/26 and potentially beyond that. Both colleges are looking to SFC for guidance. Jack Kerr confirmed that guidance is needed as consolidating accounts complicates the position.

**10.10** The Annual Audit Report is written by Audit Scotland and goes to the Board for noting not approval.

***Decision: The ARC recommended the Annual Audit Report to the Lanarkshire Board for the Board to note.***

**10.2 RSB Financial Statements 2023/24**

**10.2.1**

Iain Clark informed the committee that:

In the year to 31st July 2024, NCL made a deficit of £4,911k before other gains and losses on a turnover of £51,325k net of intercompany transactions.

* NCL’s underlying operating position was £243k deficit (2022/23 £3,573k deficit) before the gain on disposal of assets of £68k: including the gain, the total operating deficit is £175k.
* Amcol Scotland Limited made a surplus of £499k before other gains and losses on a turnover of £4,764k net of intercompany transactions. Amcol’s underlying operating surplus was £527k (2022/23 £431k surplus).
* The NCL group reported an underlying operating surplus of £0.284m to 31st July 2024.
* SLC made a deficit of £1,677k before other gains and losses on a turnover of £18,592k net of intercompany transactions. SLC’s underlying operating surplus was £378k (2022/23 £254k deficit).
* In the year to 31st July 2024, the RSB generated an underlying operating surplus of £662k, 0.82% of Total Expenditure (2022/23 – deficit of £3,396k, -3.98% of Total Expenditure).
* He informed the Committee that the asset position on the balance sheet was weaker because of the accounting treatment for job evaluation, and the SFC Creditor.
* Cash flow continues to be an issue.

**10.2.2** Ronnie Smith referred further to the impact that the date of the dissolution of the RSB could have on the accounts for 2025/26. If the dissolution goes beyond 31st July 2025 then there would still have to be a consolidation and this would be complex. This point was acknowledged by Jack Kerr.

**10.3 AMCOL Financial Statements 2023/24:** Members of the ARC welcomed this very positive set of accounts and cash balance.

***Decision: It was agreed to recommend the Financial Statements for 2023/24 to the Board for approval.***

**11. NCL Audit Committee Annual Report:** Diane McGill presented her paper which details meetings of the ARC over the year, the papers and reports it has received and the internal and external audit opinions.

***Decision: It was agreed to recommend this report to the Board for approval.***

**12. Risk Register**

**12.1 Regional Risk Register:** Ronnie Gilmour spoke to his paper and presented the Regional Risk Report. He reported that there is mainly no change to the risks identified by NCL with the exception of:

Risk J - "Failure to establish and implement an effective regional governance model" moves DOWN to a residual risk score of 3 (from 6), and

Risk H - "Failure to SFC Credit Targets" moves DOWN to a residual risk of 5 (from 10).

All other residual risks remain the same as per August 2024.

**SLC Risk Register,** incorporated into the Regional Risk Register, has been realigned to the NCL format.

There is a total of 15 risks logged - 1 less than August 2024;

8 risks have moved DOWN (1, 2, 3, 4, 5, 7, 12, 13 and 15) and 2 risks have moved UP (6 & 10);
The remaining 5 risks remain the same as the August 2024 register.

**13. Internal Audit Reports**

Stephen Pringle (Wylie and Bisset) presented the reports as follows:

**13.1 Student Support Funds Report**

“On the basis of our examination and of the explanations given to us, we report that information set out in these forms is in agreement with the underlying records. We also report that, in our opinion, the college used these forms in accordance with the guidance issued by SFC and SAAS. We are satisfied that the systems and controls for the administration and disbursement of these funds are adequate.” There were no recommendations.

**13.2 EMA Report:** There was one low grade recommendation that spot checks should be carried out on 5% of all EMA applications throughout the year. Iain Clark advised that Student Funding had created a report for this.

**13.3 Credits Report:** The College’s credit target for 2023/24 agreed with SFC was 117,288. The number of credits claimed for the target was 117,592. While over target it was within the 2% tolerance allowed by SFC. There were no recommendations.

**13.4 Regional Assurance Report:**

**13.4.1** In the credits’ summary P4 of the report it states that SLC delivered 43,601 credits against a target of 44,077, thus reducing the Region’s credits delivered to 161,193 against a target of 161,365. This is incorrect. SLC met and exceeded its target. The figures have been transposed and should read SLC delivered 44,077 credits against a target of 43,601. Stephen Pringle agreed to amend the figures.

**13.4.2** Stephen Pringle reported that Wylie Bisset had liaised with SLC’s auditors, Henderson Loggie. Both sets of auditors found that all (Credits, SSF and EMA funding) had been processed and used in accordance with SFC guidance.

**13.5 Annual Internal Audit Report:** This report covered both NCL and SLC. There were no high priority recommendations for NCL, but there were a number of medium and low grade recommendations requiring action. There was one high priority recommendation for SLC requiring the college’s estates strategy to be updated to reflect the current space requirements of the curriculum, staff and students. There were also a number of medium and low grade recommendations for SLC.

**13.6 Procurement Report:** Wylie and Bisset reported a strong level of assurance (highest grade possible) on procurement arrangements in place at NCL. There were 2 low grade recommendations and one observation, with many areas of good practice. The recommendations covered the creation of training logs for staff, and that procurement documentation should be held in a shared folder. Both recommendations have been addressed.

**14. Board Development Plan update:** Diane McGill spoke to her paper drawing attention to the progress being made against the Development Plan drawn up following the Self Evaluation of the Board exercise carried out earlier in the year. This paper will go to the Board for approval on 10th December 2024.

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

**15.1** The committee approved the publication of the agenda, the minute, the Matters Arising paper, The Technical Bulletin, The Audit Scotland Scotland’s Colleges 2024 review, and the Board Development Plan update.

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

**17. Date of Next Meeting:** The date for the next scheduled meeting is **Monday 17 February, 2025 at the Cumbernauld Campus and via Zoom**