GLASGOW KELVIN COLLEGE

BOARD OF MANAGEMENT

AUDIT & RISK COMMITTEE

MINUTE

Minute of the meeting of the Audit & Risk Committee held on Thursday, 26 November 2020 at 5pm via Microsoft Teams

1. Sederunt

John Hogg (Chair);
Deborah Thomson (Vice Chair);
Dr Elaine Clafferty;
Fiona Taylor;
Gerry Lyons; and
Michael O'Donnell.

In Attendance:

Derek Smeall, Principal and Chief Executive;
Lisa Clark, Interim Assistant Principal;
Jeanette Evans: Vice Principal, Operations;
Alan Carr, Head of Finance;
Douglas Wilson, Clerk to the Board;
David Archibald, Henderson Loggie;
Gary Devlin, Azets; and
Mary Connelly, Senior Committee Coordinator *(for recording purposes).*

The Chair welcomed members to the meeting.

The Chair also welcomed J Evans, Vice Principal, Operations, advising that this was her first meeting of the Audit & Risk Committee.

2. Apologies

Apologies were received from:

Eileen O'Neil, Co-opted Member and Anne McTaggart.

3. Terms of Reference

It was confirmed the meeting was quorate with six members in attendance.

4. Declaration of Interest

No declarations of interest were noted by members.

5. Minute of the previous meeting held on 8 September 2020

The minute of the previous meeting was accepted as an accurate record of the business conducted on 8 September 2020.

6. Matters Arising from the minutes of the previous meeting held on 8 September 2020

There were no matters from the meeting on 8 September 2020.

7. Correspondence

a) Audit Scotland - Confirmation of 1-year extension to Audit Appointments

Members noted the content of the correspondence for information.

b) SFC – Coherence and Sustainability – A Review of Scotland's Colleges and Universities – Phase One Report

The Vice Principal advised members that the update was provided for their information only. Members noted the content of the update.

c) GCRB – Call for Evidence

The Clerk to the Board advised that a review group had been set up and that a paper would be on the agenda of the Board of Management on 7 December 2020. This would further shape a formal response to GCRB – deadline 18 December 2020.

Members noted content of the correspondence for information.

8. Annual Report and Financial Statements – NOT IN THE PUBLIC DOMAIN

a) Draft Annual Report and Financial Statements – Year Ended 31 July 2020

The Vice Principal reminded members that the purpose of this report is to provide members of the Audit & Risk Committee with a draft of the College's Annual Report and Financial Statements (Annual Report) for the 2019/20 academic/financial year. The Audit & Risk Committee and the Finance & Resources Committee are required to endorse the Annual Report prior to their consideration and approval by the Board of Management at its meeting scheduled for 7 December 2020.

J Evans brought members attention to the overall summary. She advised that there would be some minor amendments to the narrative only, before being presented to the Board of Management. J Evans opined that the results were slightly better than expected, with many positives.

J Evans advised that overall, the documents present a balanced overview of performance during the year, both in terms of finance and other key performance measures. Despite the impact of COVID-19 Financial Performance during the year exceeded the College budget and the College is therefore reporting a greater than planned Adjusted Operating Surplus for the year.

The main reason for this is savings in staff costs as a result of the teaching management re-structure and savings in utility costs and other building running costs following the closure of all campuses during lockdown. The adjusted operating surplus of £238k, was an improvement of £571k on the previous year's adjusted operating deficit of £333k.

The Chair thanked J Evans for the summary and invited questions or comments from members.

F Taylor spoke around the Foundation Apprenticeship Programme and the challenges facing students completing elements. The Principal agreed that work continued in lobbying SDS to gain adjustments and advised that funding may shift from SDS to SFC going forward, with the impact of COVID19 shaping achievement levels in future years. Discussions followed at length by members, agreeing that a combined effort from all was required to influence funding.

M O'Donnell thanked J Evans for a succinct highlight of the report and agreed that this was a positive result against a very challenging environment.

The Chair summarised the Principals statement, agreeing the document reflects the challenging financial climate. As a member of the Executive Committee, he advised that the regular meetings were reassuring, adding that a well thought through plan was in place. J Hogg brought members attention to Page 13, cautioning that it would become increasingly difficult to make further reductions in staff costs.

The Principal explained the reasons for the increased use of the Executive Committee, agreeing that it gave assurance, meant reduced risks and allowed quick changes with a positive momentum.

The Clerk to the Board took members through the membership of the Executive Committee.

Members thanked A Carr and his team for the detailed report.

The Chair invited questions. No further questions arose.

Members of the Audit & Risk Committee agreed to:

i) note the contents of this report and its appendices which will not be placed in the public domain at this time;
ii) note the financial and operational performance of the College during academic year 2019/20;
iii) note the letter providing assurance that there is no impairment in the balance sheet value of land and buildings;
iv) note the unqualified audit opinion; and
v) endorse the draft College Annual Report and Financial Statements for the 12 months ended 31 July 2020.

b) External Audit Report to the Board of Management – 2019/20

G Devlin provided an overview of the progress report and advised that the annual report and financial statements for the year ended 31 July 2020 are due to be approved by Glasgow Kelvin College on 7 December 2020.

G Devlin advised of the intention to report within our independent auditor's report an unqualified opinion on the financial statements, the regularity of transactions and other prescribed matters. He further stated that there are no matters which were required to report by exception. G Devlin advised that this report concludes the audit for 2019/20. All work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

G Devlin thanked the Finance Team for delivering a good set of accounts and working papers and for providing helpful information. He advised that despite the impact of home working due to COVID9, the Finance Team had a good handle on the Colleges finances.

G Devlin took members through the key messages at the front of the item, advising that this was a clean audit report, with no matters to report. G Devlin expressed his view that the College was well managed.

G Devlin opined that after successfully implementing plans to make savings, the College faced a difficult 2 years ahead, with a range of far reaching judgements required. These challenges would be felt across the sector and all of the Glasgow Region.

G Devlin gave an explanation for each audit risk area, highlighting that Governance and in particular Value for Money, was better overall than in previous years. He brought members attention to the 3 mandated risks on page 11, advising there were no issues to report. The potential risk of the college running out of cash had passed and the College was a going concern. He invited questions or comments from members.

Members agreed that they felt reassured by the overview provided following restructuring and reiterated a difficult 2 years ahead would follow.

The Chair thanked G Devlin for the summary and opined it a clear and fair report. He thanked G Devlin for the positive comments regarding the first-class service provided by the Finance Team.

The Chair invited questions or comments from members. No further questions arose.

Members of the Audit & Risk Committee agreed to endorse the External Audit Annual Plan 2019/20.

9. Annual Audit Report – Financial Year 2019-20

The Interim Assistant Principal advised members that this report seeks to provide the Board of Management with an overview of the work of its Audit & Risk Committee during the academic/financial year 2019/20.

L Clark advised that it also seeks to ensure that the Board complies with guidance in this respect issued to the Further Education Sector by the Scottish Funding Council (SFC) in the Financial Memorandum. The SFC requires Glasgow Kelvin College to submit this report and its appendices by 31 December 2020, to GCRB and the SFC.

L Clark stated that this report had been drafted to provide the Board of Management with assurance relating to the operation of the Audit & Risk Committee and to comply with the Audit guidance issued by the SFC. It has been prepared for consideration at the Board of Management meeting scheduled for 7 December 2020. Prior to discussion at the Board of Management, this report has also been considered at the Finance and Resources Committee (24 November 2020) and the Audit & Risk Committee (26 November 2020).

L Clark took members through the content of the report, covering the main items in detail including the work of the Audit & Risk Committee throughout the Academic Year.

Referring to section 17, L Clark acknowledged that the Committee wished to place on record, its appreciation for the work undertaken by both the College's Internal and External Auditors during the reporting period. The Committee also wished to thank J Hogg for Chairing the Committee effectively and diligently throughout the year.

L Clark invited questions or comments from members.

F Taylor asked it to be noted under the relevant section that she had been due to a period of ill health.

D Thomson advised that she found the report useful as it highlighted how busy and useful the Audit & Risk committee had been throughout the year.

Members of the Board of Management agreed to:

i) approve the Chair of the Board's Audit & Risk Committee's Annual Report for the financial year ended 31 July 2020;
ii) note the contents of the Report's appendices;
iii) note the Opinion outlined in section 16 of the Report; and
iv) authorise the Principal to forward the Annual Audit Report (and its appendices) to the Scottish Funding Council/GCRB.

10. Internal Audit Annual Plan 2020/21

D Archibald advised that the purpose of this document is to present for consideration by the Audit & Risk Committee, the annual operating plan for the year ended 31 July 2021. The plan is based on the proposed allocation of audit days for 2020/21 set out in the Strategic Internal Audit Plan 2019 to 2022 (Report 2020/01, finalised 25 September 2019), which was presented to the Audit & Risk Committee and approved by it at its meeting on 17 September 2019.

D Archibald continued that the annual operating plan for 2020/21 shows three changes to the allocation set out in the original Strategic Plan. Following discussion with College management and the Audit & Risk Committee four days have been added to the plan under Corporate Governance and will be used to carry out an Externally Facilitated Effectiveness Review as required by the Code of Good Governance for Scotland's Colleges. This is due to be submitted to the Scottish Funding Council by 'Spring 2021' in line with the latest advice from the Chair of the Good Governance Steering Group.

This assignment was originally substituted into the 2019/20 plan in place of a planned review of Student Engagement / Students' Association however was subsequently deferred into 2020/21 as a result of the Covid-19 lockdown. In addition, the reviews of Quality Assurance and Estates Strategy / Capital Projects have been deferred from 2020/21 into 2021/22 at the request of management.

D Archibald brought members attention to Section 3 of this report, advising he has set out the outline scope and objectives for each audit assignment to be undertaken during 2020/21, together with the audit approach. These have been arrived at following discussion with the Head of Finance and Assistant Principal (Interim). The outline scopes will be finalised after discussion with responsible managers in each audit area.

D Archibald asked if the relevant comments above felt right, members endorsed these changes.

Discussions followed regarding the expected timescales and clarity was provided that it would take 4 days with an additional 2 days, amounting to 6 in total.

The Chair thanked D Archibald for the summary of his report and invited questions or comments from members. No further questions arose.

Members of the Audit & Risk Committee agreed to endorse the report.

11. Internal Audit Reports
a) Student Support Funds

D Archibald reminded members that for the 2019/20 academic year, three specific fund statements were required for audit:

- Further Education Discretionary Fund, Further and Higher Education Childcare
- Fund and Bursary Return;
- Higher Education Discretionary and Childcare Fund; and
- Education Maintenance Allowance Return

D Archibald advised that the audit objectives were to ensure that:

- The College complies with the terms, conditions and guidance notes issued by SFC, SAAS and the Scottish Government;
- Payments to students are genuine claims for hardship, bursary or EMA, and have been processed and awarded in accordance with College procedures; and
- The information disclosed in each of the returns for the year ending 31 July 2020, is in agreement with underlying records.

D Archibald advised members that they were able to certify the HE Discretionary and Childcare Fund and EMA Return for the year and submit these to the appropriate bodies, without reservation. In the covering letter to SAAS, enclosing the audited HE Discretionary and Childcare Fund Return, he noted that the College does not operate a separate interest-bearing bank account for the HE Discretionary Fund and all transactions were through the Colleges main bank account. The College uses the

Government banking service for all of its financial transactions, on instruction from the Scottish Funding Council, and this account does not pay interest

D Archibald highlighted the issue, with the covering letter to the SFC regarding the process for related kit expenditure for courses. He advised this was not a material error and it had been rectified with a change of process. This did not affect the overall opinion of there being no issues.

The Chair discussed the recommendations and the implementation of the new system having been introduced in September 2020.

The Head of Finance reiterated the benefits of working closely with the Auditors and the importance of effective communication, as this allowed an immediate additional step to be introduced to improve the process.

The Chair invited further questions from member. No further questions arose.

Members of the Audit & Risk Committee agreed to endorse the report.

b) 2019-20 Student Activity Data

D Archibald reminded members that, in accordance with the Credits Audit Guidance, he reviewed and recorded the systems and procedures used by the College in compiling the returns and assessed and tested their adequacy. He advised that further detailed testing was carried out as necessary, to conclude that the systems and procedures were working satisfactorily as described to us.

D Archibald advised that the report was submitted to the SFC on 23 October 2020. He reported that, in his opinion:

- the student data returns have been compiled in accordance with all relevant guidance;
- adequate procedures are in place to ensure the accurate collection and recording of the data; and
- on the basis of our testing we can provide reasonable assurance that the FES return contains no material mis-statement.

The Chair shared his own experiences of working with internal Auditors and congratulated the College on seeking to continuously improve. He opined this has been obvious on a continual basis during his time of being a member of the Committee.

D Archibald agreed and reminded members that the level of experience within the Finance Team has fully allowed them to make complete sense of changes to the evolving guidance.

The Chair invited further questions. No further questions were asked.

Members of the Audit & Risk Committee agreed to endorse the report.

c) Annual Report to the Board of Management

D Archibald took members through the content of the report.

D Archibald reminded members that all work in 2019/20 assessed systems, as either "Good" or "Satisfactory" or provided unqualified opinion on College returns, with the exception of the Further and Higher Education Childcare Fund and Bursary Return audit where we included a reservation in our covering letter to the Scottish Funding Council in relation to College's claim for Study Expenses from the Bursary Fund. This did not, however, represent a major internal control weakness and no other such weaknesses were identified from the internal audit work carried out during the year. In general, procedures were operating well in the areas selected, but a few areas for further strengthening were identified and action plans have been agreed to address these issues.

D Archibald opined that the College has adequate and effective arrangements for risk management, control and governance. Proper arrangements are in place to promote and secure Value for Money. This opinion has been arrived at taking into consideration the work undertaken during 2019/20 and in previous years since our initial appointment.

D Archibald brought members attention to page 17, and gave assurance there were no concerns.

D Archibald explained that overall, there were five recommendations were made; four priority 3 and one priority 2 recommendations. The priority 2 recommendation made was as follows:

- Ensure that all enrolment data that confirms student eligibility for Credits funding, including confirmation of residency status, is captured during the enrolment process and subject to data integrity checking.

The Chair thanked D Archibald for the report and invited further questions or comments.

M O'Donnell reminded members that this was a similar outcome to last year's report. He opined that this was very reassuring, the ongoing high quality of work done by the college.

Members of the Audit & Risk Committee agreed to endorse the report.

12. Suspected Fraud Investigation – NOT IN THE PUBLIC DOMAIN

The Interim Assistant Principal spoke to the content of the report, advising members that the purpose of this report is to provide an update on investigations into a suspected case of fraudulent misappropriation of funds which occurred at the College in 2016. L Clark advised that the College awaits the results of the interrogation of the relevant user data from 2016. The College would then be in a position to make a decision of how to proceed. A final report will be made in due course.

The Chair thanked L Clark for producing a detailed and thorough report and requested that once a conclusion had been reached, it is brought back the Audit & Risk Committee agenda. The Chair sought perspective from the Auditors.

G Devlin opined that every establishment cannot be immune to fraud and that the loophole had been closed, therefore it would be impossible to be done again. No further reporting had been done to Audit Scotland due to the small threshold and he was not overly concerned given the thorough investigation underway.

D Archibald agreed that he had witnessed many fraud cases across different sectors. He advised members that he was pleased to see that Police Scotland had been involved from the outset of the investigation, as well as the notification to GCRB.

Members agreed that this was a thorough and detailed report which provided great comfort.

The Chair invited further questions. No further questions arose.

Members of the Audit & Risk Committee agreed to:

i) note the content of this report and its appendices; and
ii) note that a final report be presented to the Audit & Risk Committee in due course.

13. UMAL Update Report – NOT IN THE PUBLIC DOMAIN

The Interim Assistant Principal spoke to the content of the report at length. L Clark reminded members that the purpose of this report is to update members in relation to various matters pertaining to the College insurance and advised UMAL is a discretionary mutual.

The Interim Assistant Principal advised that during w/c 31 August 2020, over a 3-day period, UMAL carried out inspections across the College estate in respect of Health and Safety and Estates and took members through the information in the appendices.

L Clark advised that the College is pleased with these reports as it shows that for Health and Safety Controls, the College is scoring an overall average score of 2.30 against a UMAL average of 2.40. In terms of the Property Fire Management Controls and Protection Facilities, the College has an overall average rating of 2.76 against a UMAL average of 2.60. It should further be noted that UMAL include universities in their scoring calculations who often have large teams of health and safety and estates personnel; some of these institutions have been members of UMAL for circa 14 years and have benefitted year on year from these annual review exercises hence their high scoring. The highest score that can be awarded is 3; this has been achieved across both areas in some categories.

The Chair thanked L Clark for the report and noted that the relationship with UMAL was in its infancy.

Members of the Audit & Risk Committee agreed to:

i) note the content of this report and its appendices; and
ii) requests an update in respect of the UMAL inspections carried out when all works are complete.

14. Lennartz Update

The Head of Finance reminded members that in November 2014, the College engaged VATAngles to pursue a claim against HMRC for recovery of VAT paid and to write off VAT payable in respect of the Lennartz ruling. A Carr advised that the purpose of this report is to provide members with an overview of Lennartz and an update on recent developments.

A Carr spoke to the content of the update report in detail, bringing members attention to Section 4. The advice of VAT Angles is that this should result in a partial repayment of Lennartz payments, however HMRC continue to contest this view. The potential repayment would be £724k, less fees. He advised that if the Colchester case is decided in favour of the appellant, the College would be due a further £922k, less fees.

D Thomson advised that she found the report very useful, acknowledging that we were the only Scottish college pursuing a claim.

Members of the Audit & Risk Committee agreed to note the content of the report.

15. Risk Appetite and Risk Register Review

The Interim Assistant Principal reminded members that the Risk Appetite and Risk Register are considered by the Audit & Risk Committee formally each time this committee meets. Additionally, the College operates a Risk Management Committee chaired by the Interim Assistant Principal which meets four times a year to consider risk management issues. The Risk Management Committee most recently met on 27 October 2020 to consider the Risk Register in detail, particularly in light of COVID-19, the new Academic Year, cyber security threats, the financial situation and the ongoing review - SFC - Coherence and Sustainability - A Review of Scotland's Colleges and Universities.

L Clark advised that the main changes were in relation to ICT and members will be pleased to note that the College ICT Department has recently passed the Cyber Essentials Plus assessment. She brought members attention to The Certificate of Assurance which lasts for 12 months, contained within Appendix 1.

L Clark brought members attention to Section 4 on risk gradings, 18 Red scores had reduced to 16 and Amber scores had increased from 9 to 11.

Members had previously discussed at length the potential student retention issues during item 08a; this discussion continued. Members agreed that this should be added to the agenda of the next Learning and Teaching Committee and the next Risk Management Group agenda, to allow for further discussion.

L Clark confirmed that this risk is covered under the Strategic area and has been recognised across all College online learning activity.

The Chair thanked members for the fuller discussions involved to explore further.

Members of the Audit & Risk Committee agreed to:

i) note the contents of this report;
ii) review and approve the Risk Appetite Statement; and
iii) review and approve the Risk Register.

16. Risk Management Committee Minute – 31 August 2020

The Interim Assistant Principal reminded members that these meetings were held on a regular basis to consider emerging issues/threats. Members noted the approved minutes for information.

17. Governance Action Plan

The Clerk to the Board reminded members that this report is to update members of the Committee on progress against the Governance Action Plan.

D Wilson asked members to recall that the Governance Action Plan (GAP) is prepared to capture within one document planned and required governance actions. It is also referred to as the Board Development Plan. The GAP has been developed as a key reporting document to the Board of Management with respect to its role to ensure effective governance.

D Wilson advised that the GAP is regularly monitored by himself, the Clerk to the Board of Management, the Interim Assistant Principal and Secretariat. In terms of reporting, it is presented to the Board of Management twice per year, at its December and June meetings. It is also regularly reported through the Audit & Risk Committee. It is publicly available and is shared as required with external bodies such as Glasgow Colleges Regional Board and the Scottish Funding Council.

D Wilson brought members attention to Appendix 1 and took members through the 3 key elements therein. He opined that positive progress had been made and this item would be taken forward to the Board of Management meeting on 7 December 2020.

D Archibald advised that only a few Colleges have this in place, and it was evident that the College takes this seriously.

The Chair invited further questions or comments. No further questions arose.

Members of the Committee agreed to:

i) consider and note progress against the Governance Action Plan in Appendix 1; and
ii) note that this update will be presented to the Board of Management meeting to be held on 7 December 2020.

18. Audit Action Plan

The Interim Assistant Principal reminded members that it is good practice for both management and the Audit & Risk Committee to monitor progress in implementing the recommendations made by the Internal and External Auditors.

L Clark asked that members recall that it was agreed that the College would maintain an Audit Action plan to provide the Audit & Risk Committee with details of all 'high' and 'medium' grade audit recommendations raised by either the internal or external auditors.

L Clark took member through the current Audit Action Plan in detail and the planned audits chartered. She provided updates and advised that there were 2 medium grades recommendations remaining with a relevant update provided beside each one.

The Chair invited further questions or comments. No further questions arose.

The Audit & Risk Committee agreed to:

i) note the contents of this report and its appendix; and
ii) endorse the Audit Action Plan.

19. a) Technical bulletin 2020/3 – Technical Developments and Emerging Risks

b) Guide for Audit & Risk Committees

Members noted the content of both items for information.

20. Equality Management – Equality Issues to be considered as a consequence of the consideration of the above agenda items

Members agreed that no new equality related issues had arisen as a consequence of the business conducted.

21. Risk Management – Risk Issues to be considered as a consequence of the consideration of the above agenda items

Members agreed that no new risk related issues had arisen as a consequence of the business conducted.

22. Data Protection – Data Protection Issues to be considered as a consequence of the consideration of the above agenda items

Members agreed that no new data protection related issues had arisen as a consequence of the business conducted.

23. Closure

The meeting closed at 6.50pm with the Chair thanking members for their contribution and attendance.

The Chair advised that the private meeting with the Internal and External Auditors and members will take place at the end of the next meeting.

24. Date of Next meeting

The next meeting of the Audit & Risk Committee will be held at 5pm on Tuesday 23 March 2021.