

# **South Lanarkshire College**

## **Audit Committee (Board of Management)**

**Meeting to be held on  
Tuesday 28<sup>th</sup> August 2018  
at 17.30 hours in the Boardroom**

### **AGENDA**

1. Apologies.
2. Declaration of Members' Interest.
3. Minutes of Previous Meeting 14 May 2018
4. Matters Arising
5. Head of Finance Report
6. Internal Audit Reports Messrs. Scott-Moncrieff  
    • Income and Debtors (Appendix 1)
7. Internal Audit Plan 2018/19 Messrs. Scott-Moncrieff  
    • Note on Service Delivery (Appendix 2)  
    • Draft Plan 2018/19 (Appendix 3)
8. Audit Committee Governance Messrs. Scott-Moncrieff  
    • Scottish Govt. Audit & Assurance Handbook (Appendix 4)  
    • Summary of 2018 changes (Appendix 5)
9. Risk Management Head of Finance  
    • Risk Register Commentary (Appendix 6)  
    • Risk Register Summary (Appendix 7)  
    • College Risk Register as at 16 August 2018 (Appendix 8)
10. External Audit – Year to 31<sup>st</sup> July 2018 Messrs. Mazars  
    • Update from Messrs Mazars (Appendix 9)
11. Any Other Competent Business.

# SOUTH LANARKSHIRE COLLEGE

## AUDIT COMMITTEE MEETING

Tuesday 28th August 2018

### HEAD OF FINANCE REPORT

#### 1. Purpose & Introduction

To inform the members of the Audit Committee of developments in the area of audit and finance.

#### 2. Executive Summary

##### 2.1. Internal Audit Report

Attached as **Appendix 1** is the internal audit report on Income and Debtors. There are two minor recommendations

**Committee to note the report and approve the Management Responses as being appropriate.**

##### 2.2. Internal Audit – Draft Plan

Attached as **Appendices 2 and 3** are the Service Plan, which detail the administrative arrangements re the internal audit service for the year and the draft plan. Members should note review the plan with a view to advising on which areas should be covered in 2018/19.

**Committee to consider the options presented in the draft plan and recommend the areas that should be covered by Messrs Scott-Moncrieff in 2018/19.**

##### 2.3. Audit Committee Governance

Attached as **Appendices 4 and 5** are the new Audit and Assurance Committee Handbook, issued by the Scottish Government in March 2018. Messrs Scott-Moncrieff have prepared a briefing paper on the changes and will address this at the meeting.

# SOUTH LANARKSHIRE COLLEGE

## AUDIT COMMITTEE MEETING

Tuesday 28th August 2018

### HEAD OF FINANCE REPORT

<b>Committee to review the paper and the Handbook and:</b>
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| <ol style="list-style-type: none"><li>1. Agree contents of letter of appointment for individual Audit Committee members (see Appendix C of revised handbook).</li><li>2. Update Audit Committee terms of reference (see appendix D of revised handbook) which following approval should be available on the College website.</li><li>3. Complete self-assessment checklist (see appendix H of revised handbook).</li><li>4. Develop an assurance framework for the College (picking up on potential areas of non-compliance from 2 above).</li><li>5. Consider training needs of Audit Committee members on the new assurance framework.</li><li>6. Construct annual core work programme (see appendix E of revised handbook).</li></ol> |
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#### 2.4. Risk Management

Attached as **Appendices 6, 7 and 8** are the College summary and detailed Risk Registers as at 16<sup>th</sup> August 2018, plus the commentary thereon. Members should note the work being undertaken in the areas of cybercrime and GDPR, and the narrative on the final grant-in-aid allocation made to the College.

<b>Committee to review and note the College's Risk Register and to recommend to the Board of Management.</b>
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#### 2.5. External audit on the Financial Statements for the 12 months to 31 July 2018

Attached as **Appendix 9** is an Audit Progress Report from Messrs Mazars; a representative of the firm will present this document. Members are asked to consider the report.

<b>Committee to note the report and, in particular, the National Publications and Other Updates section.</b>
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#### 2.6. Audit Scotland Technical Bulletin 2018 / 2

Members should note that there is no section on Further Education in the latest Bulletin and no general matters which affect the sector.

<b>Committee to note</b>
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**South Lanarkshire College**  
**Finance and Resources Committee (Board of Management)**  
**Held on 5<sup>th</sup> September 2018**

**Present**            Andy Kerr (Chair)  
                         Stewart McKillop  
                         Stuart Dillett (by phone)  
                         Clare Gibb (by phone)

**In Attendance** Keith McAllister  
                         Angela Martin

**Apologies**        Angus Allan

**1. Declaration of Members' Interests**

Mr McKillop and Mr Kerr declared their membership of The Lanarkshire Board.

**2. Minutes of the Previous Meeting**

The minutes of the meeting held on 10<sup>th</sup> May 2018 had previously been approved by the Board of Management.

**3. Matters Arising**

Draft Indicative Budget – Mr McAllister drew members' attention to the changes on this document. He explained that this was largely due to the variance between the anticipated and actual grant-in-aid figure and the changes that this had made necessary in other lines.

Lennartz – the College has now come to the end of these repayments. This was an annual cost of £200K with the real benefit being the positive change to cashflow.

**4. Head of Finance Report – September 2018**

Management Forecast – 12 months to July 2018

Mr McAllister stated that the forecast for the 12 months to July 2018 as at August 2018, shows a lower surplus than that predicted in April. While some income lines are up, forecast salary increases utilising best estimates with regard to recent National Bargaining note are also up.

Discussion took place in regard to the impact of the pay awards through National Bargaining and the awards which remains outstanding.

Mr McAllister stated he wished to highlight net depreciation. The land and buildings had been revalued for the 2017/18 financial statements but the change in depreciation had not been incorporated into the 2017/18 management accounts as yet.

Mr Dillett enquired as to the periodic requirement for valuations and was informed the required period is every three years.

Ms Gibb questioned if given that the value of the building has gone up, had the insurance been flexed to reflect this. Mr McAllister stated that this was done with the insurance company every year and the insurance was calculated to cover what was considered to be the rebuild cost.

#### Management Forecast – Year to 31<sup>st</sup> July – Balance Sheet - (Appendix 1D)

Mr McAllister stated that this did not include the building revaluation or the revalued pension contributions. Discussion took place regard the year on year fluctuation of the latter and the impact on the profit and loss forecast.

Members discussed where budgets had been reduced to ensure the College maintained a balanced budget. Mr McAllister stated that like any viable business, the College worked within its financial means.

The Principal stressed that in previous years the College had not been able to invest in certain areas and had made cuts where possible. However, receiving the £1.3 million estates funding for essential backlog maintenance would allow many areas to be updated. The most significant spend to date from this fund has been on IT. Mr McAllister stated that the areas of spend would have to follow the areas identified in the condition survey carried out by the consultants Gardner Theobald. He added that funds had to be committed by the end of March 2019.

Ms Gibb stated that it had to be highlighted that there was a cost to keeping to a balanced budget in terms of the impact on required investment in facilities and resources but she welcomed the update on the additional estates monies. She added however, that a watching brief would need to be kept going forward.

The Principal assured members that the Committee and the full Board would be kept fully updated on this with any areas of concern being highlighted.

#### Monthly Cashflow Forecast – September 2018 - (Appendix E)

Mr McAllister stated that a copy of this document also goes forward to The Lanarkshire Board. He added that the College was happy to have avoided the use of the overdraft facility as this was a major short term objective at the last 5-year budgeting exercise.

Discussion took place in regard to the accessibility of an overdraft facility since the instruction to move banking providers. Members considered the options open to the College and agreed that it was important that the overdraft facility was retained. Details were given on the costs attached and agreed that this should continue, especially in light of the timing of funding and demands of National Bargaining.

Members sought further clarification on Lennartz. Mr McAllister stated that this was now repaid in full. He added that the involvement of the external body to advise on the way forward in this area had proven a most worthwhile investment, with a significant saving on what the College had had to repay.

Mr McAllister asked that members note the Funding Council amendment to the range of returns to be made by colleges. More emphasis was now being placed on the Cashflow Return with the removal of the quarterly Resource Return. An in-year financial forecast will be required in January/February.

Members then formally noted the review of the Management Forecast for the year to July 2018 and the cashflow return submitted to the Funding Council.

#### Draft Budget for 12 Months to July 2019 (Appendices 2A and 2B)

Members' attention was drawn to the content of the commentary on the budget and forecast. The College is forecasting a balanced budget but this must come with a caveat for the implications of any increases re National Bargaining that may arise during the year. Modest increases in income and expenditure have been incorporated into the model.

Mr McAllister stated that the College would continue with its policy of producing a balanced budget and addressing its cashflow situation per its plan for financial sustainability.

The allocation of core funding re 2018/19 has been confirmed by the Scottish Funding Council to the Lanarkshire Region and agreement on the split had been reached. It was reported that this split was different from the indicative allocation reported to the May meeting of the Committee<sup>[AK1]</sup><sub>[AM2]</sub>.

The College has an updated activity target figure which is marginally higher than the previous year's figure due to the allocation of additional credits through the Scottish Government's initiative relating to childcare provision.

Mr McAllister explained the notional assumptions given by the Funding Council and the assumptions made in the budget and the impact this may or may not have. Mr McAllister stated that he was due to speak to the Scottish Funding Council the following day on their forecasting assumptions and this may result in a change to the budget forecasts for 2018/19 and for the rest of the 5-year forecasting period. Mr Dillett stated that that would require the ongoing flagging up of changes to the Committee. It was agreed that this would be done and any changes would be highlighted via an updated draft.

Members reiterated in discussion that the College's intent would always be to balance the budget and spend within its means.

#### Draft Operating Budgets for Financial Forecasting Return as at 25<sup>th</sup> August 2018 – 5 years from 2018/19 to 2022/23 – (Appendix 2C)

Mr McAllister drew members' attention to the detail of this document, stating that, as noted in the preceding 2018/19 budget discussion, any changes to the figures would be circulated to the Committee prior to their distribution to the Board. He added that the Funding Council's template would also be presented to the Board of Management at the September 2018 meeting.

Detailed discussion then ensued regarding the loss of European Social Funding in 2022/23 and the problems this may cause for colleges. Mr McAllister stated that in his dialogue with the Funding Council he would stress the College's inability to absorb this level of loss of funding. Indeed, he would be seeking clarification of what would be done to meet this shortfall by the Scottish Funding Council.

Ms Gibb stated that it was important that this was flagged up to the full Board. Members discussed the place of the Committee and Board in ensuring that a due process of

agitation<sup>[AK3]</sup><sup>[AM4]</sup> was in place. Mr McAllister stated that he had highlighted the issue of ESF as part of his report drawn up on Brexit while seconded to Scottish Government.

Mr Dillett asked if the funding would definitely remain intact until 2022 given the deadline for Brexit. Mr McAllister stated that this was the case but should notification be given that no replacement funding was to be forthcoming for 2022/23 then the College would have to address this significant change in activity. Members discussed the impact of removal of ESF on both the Sector and the UK as a whole. Explanation was given of the split of ESF across the Sector and the reasoning behind allocations.

Members then focused on the allocation of the SFC-Backlog Maintenance Grant. It was explained that these monies had to be committed by March 2019. Clarification was sought on the process attached and Mr McAllister stated that this had been the first year of this format. He did not know if this tranche of funding would be repeated, but it would be prudent not to assume that it was. He highlighted the decrease in the annual Capital and Maintenance allocation made by SFC, which had reduced by 40% in 2018/19, the latest in a series of decreases.

Mr McAllister asked members to note the significant pressure on salaries from National Pay Bargaining. There are still agreements outstanding at this time and the budget has an estimate of increases based on the understanding of the likely outcome of the negotiations plus the agreed level of increases re harmonisation. He stressed that there is a degree of volatility in salary awards and the College is subject to national agreements which may give rise to cost pressures in years to come.

Detailed discussion followed regarding the suggested percentage assumptions made by the Funding Council and the percentage incorporated in the draft budget. Mr McAllister stated that going forward the demands due to salary cost may prove unrealistic to meet if these were not supported by the Funding Council beyond the period flagged up. In the coming 5-year period serious consideration will be needed on the need to increase alternative funding and commercial activity. Members agreed the importance of continuous monitoring and discussion at Committee and Board level of the way forward.

It was agreed that in light of the budget and the assumptions made, a schedule be produced for the Board highlighting the risks. Mr McAllister will add this document to the Board papers along with the Financial Forecasting Return.

To recap, Mr McAllister added that he would be seeking guidance from the Funding Council on the levels of assumptions and would feedback any changes to the Committee in advance of publication to the Board of Management. Members were happy to agree but asked that a clear commentary on the changes and impact be part of the paperwork.

#### Procurement Update

Mr McAllister drew members' attention to the document produced by the APUC Secondment Officer. Discussion took place regarding the benefits and mitigation of procurement risk.

In regard to the table of contracts produced, members asked that those new contracts since last meeting should be highlighted for appropriate scrutiny. This would be fed back by Mr McAllister.

## Auditor General Report – Scotland’s Colleges – prepared June 2018

The Principal drew members’ attention to the areas of the report pertinent to The Lanarkshire Region and South Lanarkshire College.

Members raised concerns regarding Regional issues raised in the report and the reputational risk for South Lanarkshire College. Also they sought assurance that there could be no attempt to move staff between organisations. The Principal stated that staff could not be moved without the express agreement of South Lanarkshire College or its Board of Management. Members agreed that this was reassuring and that any attempt otherwise should be highlighted to the Board immediately.

Discussion took place in regard to the performance indicator statistics shown in the report. Ms Gibb stated that this continued success on the part of the College must be highlighted to the Board of Management.

### Estates Update

Members noted the detail given on estates, energy consumption and the Summer Programme of works.

The Principal stated that since he and Ms Gibb had met, improvement had taken place in this report but work still needed to be done to ensure the Committee was receiving the most pertinent information. Ms Gibb stated that she had seen a considerable move forward but would welcome further discussion. It was agreed that Ms Gibb and the Principal would have a meeting to make further changes to the reporting format.

### Estates Revaluation

Members noted the content of the estates valuation carried out in July 2018. This is required every three years for accounts purposes.

Mr McAllister drew members’ attention to the changes since the last valuation in July 2015. He added that the revaluation figure would affect the College’s depreciation charge for the year. This would be shown in the financial statements and would affect the management accounts but not, of course, involve any diminution of cash. An estimated depreciation charge taking this into account has been incorporated into the 5-year forecast.

Members noted the changes and content of the valuation and the potential effect on the financial statements going forward.

There being no further competent business, the Chair closed the meeting by thanking everyone for their attendance.