

Extraordinary Joint Meeting of Finance & General Purposes & Audit Committee

Minutes

Meeting reference: F&GP_Audit 2019-20/EM

Date and time: Tuesday 11 February 2020 5.00pm

Location: Room 019

Members present: Ann Irvine, Board Member (Audit)
David Littlejohn, Board Member (F&GP) (by teleconference)
Brian Crichton, Board Chair (F&GP)
Katrina Hodgson, Board Member (F&GP)
Lynn Oswald, Board Member (Audit)
Craig Ritchie, Board Member (F&GP)
Margaret Cook, Principal (F&GP)
John Dare, Staff Board Member (F&GP)
Debbie Das-Chaudhury, Student Board Member (Audit)

In attendance: Lorenz Cairns, Depute Principal (Academic)
Catherine Etri, Associate Principal (Curriculum)
Veronica Lynch, Vice Principal (External)
Graham Little, Interim Head of Finance
Henry Nicholson, Financial Accountant
Stephen Reid, EY
Grace Scanlin, EY
David Archibald, Henderson Loggie
Ian McCartney, Clerk to the Board of Management

Apologies: Debbie Hutchison, Board Member (F&GP)
Andrew Comrie, Board Member (Audit)
Amy Studders, Student Board Member (F&GP)

Chair: Ann Irvine
Minute Taker: Ian McCartney
Quorum: n/a

Summary of Action Items		
Ref	Action	Responsibility
4	Inconsistencies between the Financial Statements and the External Auditors' draft audit report to be addressed	Vice Principal/EY
4	Investigate assertion that Financial Regulations had been approved by F&GP and Audit Committees.	Vice Principal/ Clerk
4	Project Plan to be added to Agenda for next meetings of Audit Committee & Board of Management	Clerk

Summary of Action Items		
Ref	Action	Responsibility
5	UHI input to Scottish Funding Council to be pursued	Interim Head of Finance
5	External Auditor noted they would be happy to provide additional context to be provided re complexities of a catering contract linked to the curriculum	EY
5	External Auditors to revisit financial analysis assertions re Learning Centres decision-making	EY
5	Amendments to External Auditors Report to be summarised to allow Board members to identify differences	EY
5	Wording to be amended in Recommendation 2 re "wider Board awareness"	Vice Principal/EY
7	Audit Committee Annual Report to the Board of Management to be updated per agreed amendments	Clerk
8	Alternative date for next scheduled Audit Committee within the current Board cycle to be sought	Clerk

Minutes:

Item		Action
1.	Welcome and Apologies The Chair welcomed everyone to the meeting.	
2.	Declaration of Interest in any Agenda Item There were no declarations of a conflict of interest.	
3.	Extract of Decisions & Actions from F&GP and Audit Meetings of 11 December 2019 Extracts were provided for information, as they allowed the framework for this meeting to proceed.	
4.	Draft Perth College Group Report and Financial Statements for the Year ended 31 July 2019	
	Interim Head of Finance outlined Financial Statements per Paper 3, noting the improved position due to deferred income and a	

	<p>reduction in Net Assets from £26m to £24m, before opening the floor for questions from the Committees.</p> <p>Board member queried the narrative within the Report, highlighting inconsistencies between the Financial Statements and the External Auditors' draft audit report. Vice Principal clarified that such inconsistencies had been noted, but were primarily down to timings in when papers were prepared and issued. Some work was still required to finalise both the Financial Statements and Audit Report.</p> <p>Chair of Board noted that Note 31 should read Note 32.</p> <p>Board member queried Statement's assertion that Financial Regulations had been approved by F&GP and Audit Committees. This matter would be further investigated and concluded within the final draft process.</p> <p>Chair of meeting brought attention to the table of significant control issues and weaknesses, noting timescales proposed for certain areas that had started to be addressed within the reporting process, and specifically sought assurances that those areas identified for completion by end March 2020 would be completed. Principal stated that actions were in train and those items identified with impending completion date were near the end of the identified activities, and a project planning approach was being taken to the remaining items to ensure prompt delivery, including targets and milestones being set.</p> <p>Vice Principal further noted that work on Equalities Mainstreaming had been ongoing for some time and was very close to completion, and other work in areas of non-compliance regarding procurement and the Staff Code of Governance was well advanced.</p> <p>Board member asked whether the Project Plan identified by the Principal was to be shared at the next Audit Committee. This was AGREED and Clerk will add this item to the agendas of Audit Committee and Board of Management.</p> <p>Staff Board member requested a progress update regarding the ongoing National Insurance and Pensions payments situation. Interim Head of Finance noted that a provision for these issues had been made within the accounts, and further noted that work was being prioritised to resolve issues affecting staff within this financial year in the first place by the end of March, with legacy issues being resolved by the end of the calendar year.</p> <p>Board member not in attendance sought clarification by email regarding when operational issues become matters of significance for the Board. Chair of Board noted that these are judgement calls undertaken on a case-by-case basis.</p>	<p>Vice Principal/EY</p> <p>Vice Principal/ Clerk</p> <p>Clerk</p>
--	---	--

	<p>Student Board member not in attendance sought clarification by email as to why a number of Key Performance Measures were down on previous year. Depute Principal noted the Self-Evaluation process conducted each year which sought to address such shortfalls had identified alternative processes for improving the methods of attracting and supporting adult returners.</p> <p>It was clarified at this point that it would be inappropriate for the meeting to approve the Financial Statements for 2018/19 at this point as the External Auditor's Report would need scrutinised.</p>	
5	<p>External Audit Annual Report 2018-19 – CLOSED ITEM</p>	
	<p>Chair of meeting noted the Executive Summary of Paper 4 before passing to External Auditors to provide summery.</p> <p>External Auditors provided a detailed presentation of the key conclusions of their 2018/19, noting that, due the challenges in getting the information provided together with regard to both the Financial Statements audit and the wider scope dimensions, within prescribed timescales, the Report had been issued in draft form and remains a work in progress.</p> <p>External Auditors noted the additional issues in gaining agreement of the underlying position with the Scottish Funding Council, which required UHI input (Interim Head of Finance to pursue this matter), and making a consideration on regularity.</p> <p>External Auditors confirmed that, since the issuing of Paper 4, and following management responses to recommendations, 2 items within the Key Conclusions had been down-graded from Red to Amber within the RAG rating, namely the sections on Audit Opinion and Governance & Transparency.</p> <p>External Auditors clarified that the Report would be finalised once Statements and Auditor's Opinion were concluded and signed off.</p> <p>External Auditors noted that the Audit Plan presented at the Audit Committee meeting of May 2019 did not take cognisance of the significant changes, as summarised, that were required for completion, not least the requirement to reduce the testing threshold due to increased risk.</p> <p>External Auditors noted that the Regularity Opinion was linked to the appropriate use of public funds and identified weaknesses in procurement processes. External Auditors referenced the procurement of the current catering contract that had been in existence since 2004 with no additional tender processes and regular extensions to the existing contract.</p>	Interim Head of Finance

<p>Chair of Board asked whether cognisance had been taken in this particular context to the complexities of a catering contract linked to the curriculum. External Auditor noted they would be happy to provide additional context.</p> <p>External Auditors drew specific attention to the reassessment of risk identified in addition to those highlighted in the original plan, namely payroll expenditure, before noting satisfaction that the Financial Statements appeared materially compliant.</p> <p>External Auditors noted that Financial Statements for Air Service Training (Engineering) Ltd had still to be concluded but that no issues were expected in this regard, and that arrangements within the Development Trust had changed albeit with no material impact on the College's financial statements.</p> <p>External Auditors summarised the Audit Opinion section, noting that the annual report materially meets requirements, before noting that the Payroll issue had been recoded as an Additional Significant Risk.</p> <p>External Auditors clarified the outcome of their deliberations regarding Deferred Income crystallised around 2 specific items (Foundation Apprenticeships income and LUPS income), but that these were determined to be below the materiality threshold.</p> <p>Chair of Board sought to clarify the inconsistencies in views between investigations in this area. External Auditors had liaised with UHI Internal Auditor to ensure appropriate division of responsibility. Chair of Board queried whether the issue should have been reported to EY sooner than it was. External Auditor noted the timelines involved and agreed with the Chair of Board that this was an issue of attitude rather than a systematic fault of the organisation.</p> <p>External Auditors noted for consideration that the new Statement of Recommended Practice (SORP) for FE and HE will be effective for the 2019/20 financial statements, whilst not as wide-ranging as previous amendments, will require some upfront planning to implement.</p> <p>External Auditors provided an explanation of the Wider Scope work undertaken, highlighting in particular the impact that turnover of Finance staff had in terms of capacity, and how this in turn impacted on Board's opportunity to provide scrutiny.</p> <p>Chair of Board noted that such shortfalls were not deemed acceptable at the time, and such matters were discussed fully by the Board and sub-Committees.</p> <p>External Auditors noted some systems-based weaknesses affecting financial controls that will need addressed, including the</p>	<p>EY</p>
---	-----------

<p>reliance on paper-based systems, segregation of duties and a number of extraneous bank accounts. External Auditors also noted the overdue completion of the National Fraud Initiative self-assessment process.</p> <p>External Auditors referred to the insufficient time allocated to allow appropriate levels of scrutiny of the Financial Forecast Return prior to submission, noting the potential impact of this on appropriate medium-term planning.</p> <p>External Auditors considered that there were a range of governance weaknesses within the statements, and noted that management had not fully implemented plans and recommendations within expected timescales.</p> <p>External Auditors expressed concerns regarding the effectiveness of the Balanced Scorecard system being used to monitor effectiveness, in part due to the timeliness of reporting. Chair of Board noted that the system had been reviewed within the last few months however this was an ongoing process.</p> <p>External Auditors advised Committee of the fee levels for work provided, noting that significantly more time had been spent on this audit than previously budgeted, however final fee levels were still to be determined.</p> <p>External Auditors concluded presentation of Auditors Report by summarising Action Plan, noting the intention to conduct a follow-up exercise during the final Board cycle of the academic year to provide independent insurance that the Plan is being actioned.</p> <p>Vice Principal informed Committee that an Action Plan for the Management Responses was in hand, which provides additional levels of detail and timelines. Principle noted that this Plan would be combined with that resulting from the UHI Internal Auditor's report to provide one single project plan, with resources allocated as required.</p> <p>Chair of Board sought clarity over assertion that insufficient financial analysis had taken place with regard to the closure of the Learning Centres on the basis that the decision made was effectively determined by the fact that the Learning Centres had been losing money. External Auditors accepted that the decision-making process may have been understated within the Minutes, and they would be happy to revisit with management</p> <p>Chair of meeting requested that, when an updated version of this report was being presented, that amendments be summarised to allow Board members to identify difference. External Auditors agreed to this request.</p> <p>External Auditors expressed their appreciation to the Finance</p>	<p>EY</p> <p>EY</p>
--	---------------------

Team, the Principal and the Vice Principal for their approach and attitude during a difficult process.

Student Board member asked a number of questions via email related to the Auditors Report, which were answered in turn:

1. Why were the financial statements not prepared and work incomplete?
 - This was due to ongoing staffing issues;
2. Why are there significant errors and what were they?
 - These were identified and detailed within Exhibit 1 of the Report and adjustments/accruals made where appropriate;
3. What actions are in place to ensure better communication between departments?
 - These will be detailed within the project plan to be undertaken, with much clearer relationships identified to provide clear milestone completion;
4. Why were key Financial Management reports late and verbal? Should financial reports not be given as evidence?
 - This was a staffing matter which is being addressed within the Finance department;
5. why were the credit targets noted in Exhibit 4 not met?
 - Every effort was made to achieve these targets, and credit targets (but not ESF targets) were met, however a variety of factors affect achievement of credit targets, and it is a balance to achieve target without going over as extra numbers are zero-funded;
6. what actions are in place to rectify the problems re systems of internal control?
 - These will be addressed within the project plan;
7. why wasn't the NFI self-assessment conducted?
 - This was the situation at the time, but this matter is now close to completion

Chair of Board sought clarification on the clear deficiencies identified by EY in their Audit, and the position reported within the Internal Audit report. Internal Auditor noted that the Internal Audit recommendations were not yet complete and statements were

	<p>partly based on work done to mitigate issues throughout the year.</p> <p>Board Member sought clarification on the assertion within the management response to Recommendation 2 that “wider Board” were aware of capacity issues within Finance at the same time as others identified. Vice Principal agreed that there were timing issues here and the wording here should be amended to reflect this.</p> <p>Board Member queried the issues asserted re accruals as this is provided as basic training at most levels within Finance departments. Financial Accountant noted that, rather than a lack of training awareness re accruals, errors were made due to insufficient information being provided to make correct decisions re accruals, indicating a requirement for increased awareness among budget holders to ensure sufficient information is provided.</p> <p>Principal extended thanks to the EY team, the Finance department and other contributors for their work, effort and co-operation during the Audit process</p>	Vice Principal/EY
6	Internal Audit Update – HR & Payroll Systems	
	<p>Internal Auditor provided an update on the fieldwork conducted re the Payroll & Pensions Contributions audit, summarising the issues identified previously around National Insurance contributions and the links to work conducted by EY for the External Audit in order to provide comfort of non-materiality.</p> <p>Internal Auditor outlined the main findings within Paper5, drawing particular attention to the strengths and weaknesses identified within the Summary and the processes adopted to identify the scope and scale of the issue.</p> <p>Internal Auditor noted that estimating the size of overpayment at around £66,000 proved difficult due to various factors, and line-by-line analysis had not taken place, but this estimated figure did not present an issue of materiality. Internal Auditor further noted that the agreed Management Response was to focus on 2019/20 errors then tackle remedial work by end November 2020, however it was also recommended that communication to staff at various points be considered to ensure that those impacted are aware of the issue and how it may affect them.</p> <p>Staff Board member queried whether the timescales were achievable. Interim Head of Finance confirmed confidence in the timescales, as work so far had revealed the issue affecting around 15 staff.</p> <p>Principal raised the ongoing issues around systems that</p>	

	<p>contributed to this issue, and noted the need to consider how to finance improvements in these areas.</p>	
7	<p>Audit Committee Annual Report to the Board of Management</p>	
	<p>Clerk to the Board introduced the draft version of the Audit Committee Annual Report, noting that this document relies on information received from Audit Reports and Financial Statements to be completed, and is therefore a work in progress.</p> <p>Clerk sought the view of the meeting re potential amendments to the draft document.</p> <ul style="list-style-type: none"> • Internal Auditor noted there was an opportunity to provide context of areas within their scope re Section 2; • Board member requested that APUC acronym be explained in Section 5; • External Auditor recommended expanding on timings within Section 6 to provide a better reflection of process; • Board member suggested timescales within Section 7 be extended to June 2020 Board Meeting to allow appropriate time for implementation; • Vice Principal noted that Section 8 reference the disclosures summary noted in Appendix 3; • Appendix 1 should include notification to changes in membership within Terms of Reference; <p>Clerk to amend Report per these agreed amendments.</p> <p>Chair of meeting noted that all actions noted for Items 4, 5, 6 & 7 will need to be enacted and papers updated before being presented to the Extraordinary Board meeting on Thursday 20 February, with amendments made clear for Board Members.</p> <p>All present were reminded to ensure confidentiality over the draft versions of documents and discussions that had taken place until approved documents are finalised and ready to appear online.</p> <p>Meeting ENDORSED IN PRINCIPLE Papers 3, 4, 5 & 6, pending amendments per minutes.</p>	Clerk
8	<p>Date & Time of next meetings:</p> <ul style="list-style-type: none"> • Audit: 25 February 2020 10 March 2020 • F&GP: 04 March 2020 	
	<p>Chair of Audit Committee noted that a new date was required for the next scheduled meeting of Audit Committee due to a diary clash. Clerk to source alternative date with members of Audit Committee within the current Board cycle.</p>	Clerk

Information recorded in College minutes are subject to release under the Freedom of Information (Scotland) Act 2002 (FOI(S)A). Certain exemptions apply: financial information relating to procurement items still under tender, legal advice from College lawyers, items related to national security.

Notes taken to help record minutes are also subject to Freedom of Information requests, and should be destroyed as soon as minutes are approved.

Status of Minutes – Open (excepting Item 5, which will remain CLOSED until approved by Auditor General)

An **open** item is one over which there would be no issues for the College in releasing the information to the public in response to a freedom of information request.

A **closed** item is one that contains information that could be withheld from release to the public because an exemption under the Freedom of Information (Scotland) Act 2002 applies.

The College may also be asked for information contained in minutes about living individuals, under the terms of the Data Protection Act 1998. It is important that fact, rather than opinion, is recorded.

Do the minutes contain items which may be contentious under the terms of the Data Protection Act 1998? **Yes** **No**