



MINUTES OF THE MEETING OF THE AUDIT AND RISK MANAGEMENT COMMITTEE
held on Wednesday 16th August 2023 at 4.15 pm over Microsoft Teams

Present	Neil Hope, Chair Fiona Kolontari, Independent Member (From item 5 only) Ian MacEachern, Independent Member Sarah Fraser, Independent Member
In attendance	Lydia Rohmer, Principal Derek Bond, Director of Finance Fiona Sinclair, Board Secretary and Governance professional Graham Gillespie, Audit Partner, Wylie & Bisset LLP, internal auditors

Meeting minutes

1. Welcome and Apologies for absence

The Chair welcomed members to the meeting, and introduced Graham Gillespie. All members in turn introduced themselves to Mr Gillespie. As all members of the Committee were present there were no apologies for absence.

2. Declaration of Interests

Members were invited to declare an interest, either financial or non-financial in any item on the Agenda. In the interests of transparency, members were also invited to declare a connection. There were no declarations. Members were reminded that the Register of Interests had been circulated with the Agenda for the Board meeting on 1st August, and were reminded of their obligation to keep their respective entries up-to-date reflecting any recent changes of circumstances.

3. Terms of Reference and Governance Recommendations

There had been circulated report ARM0823/3 by the Governance Professional. Following discussion the Committee **agreed**

- (a) the membership of the Committee – Neil Hope (Chair), Sarah Fraser, Fiona Kolontari, and Ian MacEachern, with Lydia Rohmer and Derek Bond in attendance by invitation;
- (b) to recommend to the Board of Management that the Terms of Reference adopted by the UHI North Highland Audit and Risk Management Committee be adopted by this Committee;
- (c) to note the requirements of the Code of Good Governance set out in the report; and
- (d) to note the recommendation that all members of the Committee undergo the College Development Network training module for Audit Committee members, and noted that the Governance Professional will arrange assistance for any Committee member unable to log in to the CDN Governance website.

Action – Governance Professional to arrange for Board to approve Terms of Reference; Committee members to undertake CDN training module for Audit Committee members.

3.1 Terms of Engagement of Internal Auditors

The Committee **noted** the content of the Terms of Engagement letter, circulated with the agenda, from Wylie & Bisset relating to the on-year period up to and including 31st July, 2024.

3.2 Draft Audit Needs Assessment

There had been circulated draft Audit Needs Assessment report from Wylie & Bisset. The Audit Partner explained that the document had been prepared following sight of the internal audit reports and risk registers from the three merging partner colleges, and taking into account the Audit Partner's own experience. The Committee agreed that the document was appropriate for a newly merged college providing assurance in critical areas. It was noted that the Chair and the Director of Finance had requested that value added work be included in the key areas of Business Development and Opportunity. It was also noted that work on HR should take into consideration the Voluntary Severance Scheme and the key area of restructuring.

The Committee **agreed** the draft Audit Needs Assessment and agreed that the Director of Finance and the Audit Partner would work together to agree the priority areas of work.

Action – Chair and Audit Partner to work together to agree priority areas of audit work

4., 5., and 6. Handover reports from merging partner colleges

There had been circulated for continuity:

- (a) a note from the Chair of the UHI North Highland Audit and Risk Management Committee, and the internal auditor's annual report for UHI North Highland for the year to 31st July 2023;
- (b) the Annual Audit Committee report to the Board for the year to 31st July 2023 in relation to UHI West Highland; and
- (c) the Lews Castle College Follow Up report for the year to 31st July 2023, and the Annual Report by the Audit Committee to the Board of Management for the year to 31st July 2022.

Without discussion, the Committee **noted** the terms of these reports.

7. Proposed Approach to Risk Strategy and Management

There had been circulated:

- (a) Discussion Paper by the Principal on the approach to Risk Strategy and Risk Management;
- (b) a copy of the UHI North Highland Risk Management Policy;
- (c) a copy of the report on the Risk Register considered by the Board on 1st August; and
- (d) copies of the comments on the risk register submitted by Board members earlier in the year.

The Committee noted that the North Highland Risk Management Policy is the extant risk policy, and accepted that the newly merged college is in a different position from UHI North Highland and indeed from either of its other constituent founding colleges as it moves from merger plans to merger implementation and integration with the responsibility to deliver a reorganisation and a financial sustainability plan for which it is accountable to the UHI as regional strategic body, and the Scottish Funding Council. The Principal recommended that the Committee take a step back and consider its approach to risk, opportunities, and assurance. The Discussion Paper was divided into sections as follows:

7.1 Definition of risk – While most definitions of risk agree that risk combines the two elements of uncertainty and impact, the Principal noted the importance of realising opportunities alongside mitigating potential threats, and proposed that the Committee endorse a definition of risk which explicitly includes “opportunity”. Committee members supported this approach, noting that

- the only way to turn financial situation around is to embrace new income streams

- risks are not only threats but also opportunities
- it's important to keep a close audit on opportunities, recording successes and failures so that lessons can be learned

The Committee **agreed** to endorse a definition of risk which explicitly includes “opportunity”, and agreed that the risk strategy and risk policy reflect this decision. The Principal agreed to work with Ian MacEachern to discuss how he had developed opportunity into an approach to risk strategy and management at a previous employer.

7.2 Proposed approach to risk strategy – it is for the Board rather than the Committee to set its own culture and control environment, and its own appetite for risk and opportunity.

The Committee **agreed** to endorse the recommendation that the Board schedule a facilitated Board session to determine its strategic approach to risk, including risk culture and risk appetite.

Action – the Principal and Governance Professional to arrange a bespoke facilitated session to determine the Board’s approach to risk, including risk culture and risk appetite.

7.3 Framework for effective risk management – it was recommended that the College’s risk strategy framework be the widely accepted Three Lines of Defence Model. The Audit Partner explained that this was an approach taken at other colleges he had worked with. Discussion then followed on how the framework would sit within a quality and performance management control system to provide a link between strategy and people management. The EFQM model was suggested. Members commented that the risk management framework could be combined with the Balanced Scorecard, with the possible inclusion of statements of assurance setting out how risks have been mitigated, advising that this would give the Board real confidence of sound internal governance. It was noted that a separate report on a quality and performance management control system would come to the Board in due course.

The Committee **agreed** to endorse the proposal to adopt the three lines of defence framework to develop its approach to risk strategy and policies, and that a report on a quality and performance management control system will follow.

Action – the Principal to prepare a report for the Board of Management on a quality and performance management control system.

7.4 Risk Methodology – the Principal explained that the College should set out the strategic risks and opportunities it intends to capture and how it wants risk management be reported, and suggested setting out five types of risk or opportunity, namely Strategic, Financial, Legal, Organisational and Academic. Ian MacEachern suggested that risks arise in three different ways, and should be categorised accordingly – external risks which are outwith the control of the organisation, operational risks which are inherent to the business, and strategic risks which relate to the Board decisions. He said that the operational risks could be further divided but cautioned against having too many different categories of risk, as the risk then is that the risk register will become too big and unwieldy and will not be used.

The Chair suggested using the word Compliance rather than Legal, but otherwise proposed that the five categories listed be accepted by the Committee, while also taking into account Ian MacEachern’s comments. The Committee so **agreed**.

7.5 Methodology

The Principal proposed the following methodology be adopted to determine the new college’s strategic risk and opportunities register as set out in the report:

- a. the Board hold a session to determine the new map of strategic risks and opportunities, alongside determining its risk appetite in relation to the risks and opportunities. Further sessions be held annually to ensure the college’s risk map is

reviewed in light of external operating context as well as emergent risks and opportunities.

b. The Audit Committee approve the college's framework of internal controls, receive risk and opportunity updates at each of its meetings and commission an internal audit programme.

The Chair commented that it is important that the information provided to the Audit Committee at b. above is set in context.

c. Risk and opportunity reporting and review becomes a standing part of each Board committee's agenda for specific areas of risk and opportunity in its scope. The Audit and Risk Committee will receive a summary report on all risk review reports and receive an update report on the strategic risk and opportunities register, alongside major project risks, as a standing item on its agenda.

d. The college's executive team will maintain the college's first and second lines of defence, including the strategic risk register. Alongside this, an inventory of internal controls and assurance will be created for approval by Board and Audit Committees. Both of these, together with internal audit reports, will provide the main sources of reporting on risk to the Board via the Audit and Risk Committee.

e. The strategic risk and opportunities register will contain the following elements:

- Description of risk or opportunity
- Link to strategy
- Type of risk or opportunity
- Risk owner
- Impact statement, including impact on college or stakeholder
- Calculation of likelihood/impact=gross
- Risk appetite – target score
- Trend – increasing/stable/decreasing
- Mitigation – goals and objectives to achieve desired state; link to available controls/sources of assurance
- Mitigation owner
- Review of Mitigation (quarterly update) – review of actions, including effectiveness of controls or plans
- Residual risk calculation

The Principal explained that the Mitigation owner may be a different person to the Risk owner. **It was suggested by members that there should be a separate bullet point for Opportunity Costs, that risks and opportunity should be in two separate sections in the register, and that there could be cross-referencing to indicate duplication where a risk and an opportunity are two sides of the one coin. The Chair commented that the risk register should be a "living document" that moves and changes.**

The Chair suggested that when opportunities arise, there must be a cost / benefit analysis to enable decisions to be made as to which opportunities can be pursued within the limited resources available. If opportunities are to be included in the register, they will link to the project initiation only if a decision is made to take up the opportunity. Some opportunities may go forward with a partner.

f. Major project risks

- In addition to the strategic risk and opportunities register, the college will have at any time major strategic projects it will require to monitor in terms of risk to assure delivery. This will include non-core funded projects, including major

business development, research or capital projects above agreed financial thresholds to be agreed by the Board via Finance and General Purposes Committee. **It was understood that the Finance and General Purposes Committee will decide project approval financial thresholds next week**

- It is proposed that the college operates at executive level a College Programme Board, which will report separate risk monitoring to the Board via both FGP and Audit Committees.

g. UHI Risks

- It is proposed that the agreed UHI provided partnership-wide risk register is cross-referenced to the college's strategic risk register and reported on separately via the Audit Committee
- The committee should note that the UHI partnership risk register is currently under review. **The Principal explained that currently, the UHI Risk Register is not discussed on a regular basis. The Chair agreed to raise this concern at the next biannual meeting of UHI Partner College Audit Committee Chairs.**

h. Emerging strategic risks, opportunities, and issues

- It is proposed that the Audit Committee receive a short narrative report on emerging strategic risks, opportunities and issues affecting the college's objectives separately from the risk register as part of the exception report accompanying the risk and opportunities report.

Subject to the comments in **bold** above, the Committee **agreed** the foregoing methodology at paragraphs a to h.

7.6 Risk Policy – the Committee noted that the UHI North Highland Risk Policy which had been circulated with the report and which remains extant at this stage, will be revised in light of the Committee's discussion. The Principal suggested that a software package would enable management of the First and Second Lines of Defence, and would provide summary reports on the current risk situation highlighting risks with the highest rating. The Audit Partner agreed to provide the Principal with examples of such packages he had seen operating effectively elsewhere.

Action – Principal to revise the Risk Management Policy in light of the Committee's discussion.

In conclusion, the Committee noted and agreed that the principal and Director of Finance and Audit will share ownership of the Risk and Opportunities Register when it has been fully developed.

The meeting closed at 5.30 pm

Chair

Action	Progress on 1 st November
16 th August, 2023 - Governance Professional to arrange for Board to approve Terms of Reference; Committee members to undertake CDN training module for Audit Committee members.	Terms of reference approved by Board on 13 th September 2023 - COMPLETED
16 th August 2023 – Audit Needs Assessment - Action – Chair and Audit Partner to work	COMPLETED

together to agree priority areas of audit work – Chair and Audit Partner	
16 th August 2023 - Principal and Governance Professional to arrange a bespoke facilitated session to determine the Board's approach to risk, including risk culture and risk appetite	COMPLETED – session to take place on 3 rd November
16 th August 2023 - Principal to revise the Risk Management Policy in light of the Committee's discussion	