

UHI | NORTH, WEST AND HEBRIDES A TUATH, AN IAR IS INNSE GALL

DRAFT MINUTES OF THE MEETING OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

Chair – Neil Hope

Wednesday 14th August at 4.15 pm via Microsoft Teams

1. QUORUM & APOLOGIES

The meeting is quorate, Apologies - none

Committee Members

Ian MacEachern, Independent Board Member

Neil Hope, Committee Chair and Independent Board Member

Sarah Fraser, Independent Board Member

Struan MacKie, Independent Board Member

Also Present

Debbie Miller, Vice Principal (Operations) & SRO North Highland

Derek Bond, Director of Finance

Ellen MacLean, Board Secretary

Flora Miller, PA to the Principal & CEO

Giles Hubby, Merger Programme Director (from item 8)

Ian Howse, Deloitte

James Nock, Data Protection Officer UHI EO

Kate Hannay, Merger ICT Manager (from item 9)

Kevin Mallett, Interim Financial Controller

Lydia Rohmer, Principal & CEO

Susan Brook, WBG

Tom Rotherham, Deloitte

2. Declarations of interest

None

3. Minutes approved from previous meeting, 22nd May 2024

Approved

4. Confidential Item

Withheld

5. External Audits

Legacy Outer Hebrides audit was completed from the NWH side with final figures having been submitted. NWH had taken the stance that the Cnoc Soilleir Joint Venture had no financial value for the college and therefore were showing the asset on the Balance Sheet at £1.

Tri-annual pension audit

Deloitte advised that Highlands Council pension audit sampling information had been received and was with a Deloitte pension specialist. Auditors were expecting the report back from their pension team this week.

Deloitte need HC triannual valuation information, yet to be received, this had now been escalated to Audit Scotland.

Subject to receipt of the required pension scheme valuation information, Deloitte should complete this audit in time for the Board meeting on 10th September.

Legacy North Highland audit was still ongoing, to date there had been 154 points raised (all bar 16 had been responded to) v 184 for Lews Castle. There were a few points still coming through which were very historic and which should have been dealt with at the planning stages of the audit. Clearing some of these points had been very time consuming for the finance team at a time when they needed to be working on the 2023/24 accounts and 2024/25 budgets. For instance, it took the NWH Team, 4 hours to clear 2 items yesterday which were questions from Deloitte. There was also concern about the lack of understanding of the college being shown in some of the audit questions, and errors being made on audit schedules that had resulted in wasted time for the finance team.

The previously agreed timescale to have points completed was 9th August 2024. Ian Howse advised that the auditor dealing with this audit was on annual leave from 19th August for 2 weeks and the remaining points would be addressed on their return. A meeting was scheduled for Friday 16th August 2024 to review the points. This was to prevent duplication

from another auditor who would take on the role in the interim. The aim was for the audit to be presented to the board on September 10th, 2024, however this would probably not be achieved.

The Chair of the committee requested an estimate of the proposed fees for the two legacy college audits and advised that this was the fourth time of asking for a detailed cost breakdown for legacy North Highland and Outer Hebrides.

Ian Howse assured NWH that indicative costs and proposed fees for these audits would be given by Friday 16th August 2024.

The NWH Finance Director advised that he and the Chair of this Committee met with Pat Kenny and Rebecca McConnachie from Deloitte in early April 2024 to discuss audit fees for the NWH 2023/24 audit. A proposed fee of £290k with no detail to support how the fee had been calculated was sent through to NWH one day prior to meeting. NWH raised a dispute with both Audit Scotland and Deloitte. A revised figure of £100k was then submitted by Ian Howse who has now taken on the role of Senior Partner on the UHI college audits, who advised that the calculation for this figure was based on 1000 working hours x £100 per hour. This was again strongly rejected by the NWH Finance Director. Ian Howse offered an alternative solution of an hourly rate fee and being billed monthly based on time spent on the audit.

The NWH Finance Director stated that the service from Deloitte had been extremely inefficient due to the number of staff changes that Deloitte had throughout the audit, and significant delays due to their lack of audit staff resources, and that NWH could not accept a fee structure that depended upon Deloitte carrying out an efficient audit.

Ian Howse explained that staff were scheduled to audits to undertake the work between specific dates and if they were not able to complete the work during that time, the staff have then moved onto other audits, which makes it difficult. The NWH Finance Director explained that a lot of the audit inefficiencies and delays had been caused by the lack of proper audit planning, for example the issue with the Cnoc Soilleir JV was not raised by Deloitte until February 2024 when it was clear from the 2021/22 accounts that this would be an issue and it should have been raised much earlier during the audit planning process. Ian Howse accepted this point.

The NWH Finance Director asked that a detailed and fully costed audit plan be provided, Deloitte agreed to create one. The NWH Finance Director suggested a fee of no more than £50k for the first year post-merger would be more reasonable given the size and complexity of NWH College.

The NWH Finance Director advised that we have adopted our legacy North Highland finance system, and that Deloitte had full knowledge of two of the three legacy colleges and there should be no hidden significant risk areas. The consolidated Balance Sheet is not complex, and if put out to tender, the audit fee would be substantially lower. An example was given referring to The City of Glasgow College which was about 3 times the size and complexity of NWH and whose audit fee for last year was about £60k.

The NWH Finance Director said that Deloitte had submitted a tender for the UHI college audits and were only one year into the contract. It was completely unreasonable to increase the audit fees so significantly from the tendered fees after one year just because Deloitte had underestimated the work involved and had run very inefficient audits.

A suggestion was made by Ian Howse to have a joint meeting with Audit Scotland, NWH and themselves if the fee matter could not be resolved. The NWH FD agreed that this may be a sensible course of action to try and resolve the issue.

The NWH Finance Director expressed his concern that until the fee matter was resolved, planning for the audits for 2023/24 could not progress, NWH would be in the same situation this coming financial year with audit planning.

The Principal & CEO advised that there were separate issues relating to the cost and delays relating to the legacy college audits and serious concerns about Deloitte being able to deliver a cost effective and timely audit for 2023/24. The external audit was now a risk factor in terms of value for money. She questioned why there was such a difference in this audit compared to previous audits.

Ian Howse advised that a first-year audit was a more time-consuming and difficult process and as time matures the approach differs. There had been impact due to missing the original time frame due to staff being assigned to other audits. IH acknowledged that Deloitte would have a lot of ground to make up to gain the confidence of NWH in their ability going forward.

The NWH Finance Director advised that a conversation had taken place with UHI Exec Office Finance who were acting on behalf of all four UHI partners who have Deloitte as auditors and are speaking to Audit Scotland in the hope of resolving the issue for all the Colleges. A strong message had been delivered to Audit Scotland that we do not have faith in Deloitte as auditors.

The Committee asked if NWH were contractually bound to Deloitte.

The NWH Finance Director advised that Deloitte's contract was with Audit Scotland and not the college directly. Should there be a strong enough case against Deloitte, NWH could

raise this to Audit Scotland and if that fails, NWH could escalate further to the Auditor General.

The NWH Finance Director stated that there was a provision of about £70k sitting in accruals in the legacy college accounts for 2022/23 audit fees and was very concerned that the actual fees were going to be significantly higher than this.

6. Internal Audit Reports – Susan Brooks, WBG

Sue observed that the previous discussion on the external audit issues demonstrated calm handling of committee meetings with good challenging behavior.

Governance: Overall Rating - Strong.

The audit considered the five principles of the Code of Good Governance.+

Two low-rate recommendations were noted.

7. Internal Audit – Finance

7.1 Non SFC income: Overall Rating: Substantial

Two medium rated & one low rated recommendations were noted.

The committee noted that the report could be clearer in its wording.

7.2 Overall financial controls: Overall Rating - Substantial

The Finance Director made reference to Page 8 questioning the credit card limit comment of looking to update financial regulations regarding overall limits. WBG recognised there was no breach of credit card limit but would make the wording clearer. The FD said that he should have challenged this item having been listed as a medium risk as it was a very minor point with limited risk to the college.

Follow up Report: Overall Rating - Weak

This was a follow-up report and was based on a review of all the outstanding internal audit report actions brought forward from the three legacy colleges.

Many of the points had now been superseded due to changes since the merger, and all relevant outstanding points had been scheduled for action within 2024/25.

WBG Annual Internal Audit Report

External verification of WBG is carried out every 2 years to give assurance to clients.

The report would need to be re-issued due to tables showing incorrect representation of governance rating.

Susan acknowledged the work Derek & Roddy had put in providing the required information for audits.

The Financial Director asked for endorsement to go ahead with WBG as internal auditors again next year. He had proposed an internal audit plan taking the audit work down from 50 days to 45 days with the caveat that if an area of risk appeared during the year, further work could be put in.

The committee endorsed WBG as internal auditors to go to the Board for approval on the basis of the reduced 45-day internal audit programme.

*8. Risk Register

The college's strategic risk register with a detailed updated mitigation action report covering the period of mid-May to August 2024 was presented. There had been no change to risk identification or risk ratings since the last report.

The committee noted the requirement for additional funding from UHI for 2024/25 to be confirmed as yet. A meeting with UHI's Principal and Vice Chancellor and Chief Financial Officer was scheduled to confirm arrangements for required additional funding cover, following initial discussions for such cover in June 2024. Failing this, the college would require to amend its FFR and savings plans for 2024/25.

The format for an integrated compliance report was currently in development. However, with the establishment of responsibilities for this area through the new Performance and Planning Department, a new report format would be developed for the committee.

The financial red risk relating to financial performance would remain in place until whenever a break-even position was achieved.

The committee noted that the Scottish Funding Council had been asked via UHI for a letter of comfort to cover the college's financial sustainability as a going concern, following merger.

9. Confidential item

Withheld

10.GDPR - Kate Hannay

Referring to the paper attached to this Boardbook, there was now a V2 of this document to be shared after this meeting.

It was critical that staff were aware of the regulations and of data requirements/adherence.

There was an annual requirement for staff to refresh their training to ensure compliance. (GDPR 7.5 of the regulations) – therefore it was recommended that Board members become part of this training schedule.

The proposal was to add Board Members to the mandatory training group. Training modules on Information security & GDPR would be available through learn-upon.

Committee Endorse mandatory training for Board Members to go forward for approval at BOM Meeting in September.

Meeting closed at 1908