

Minutes of the meeting of the Audit Committee held in the Boardroom, Derby Road site, on Tuesday 17th September 2019 at 3pm

MEMBERS PRESENT: Neil McDonald, Chair
Sardip Sandhu
Clive Pitt

ALSO IN ATTENDANCE: Maxine Bagshaw, Clerk to the Corporation
Andrew Cropley, Principal
Jon Fearon, Finance Director
Steve Connors, Internal Auditors (Haines Watts)
Moushumi Begum, (from 4.45pm) Internal Auditors (RSM)

ACTION by whom	DATE by when

MEETING WITHOUT MANAGEMENT BEING PRESENT

The Chair welcomed Steve Connors to the college and the Committee, it being the case Haines Watts are newly appointed auditors taking over from RSM. He explained the purpose of the opportunity to meet with the Committee without management being present and expressed the view that it was important for Haines Watts to start to build relationships quickly with college staff. He explained that the committee has high expectations in terms of the college providing information as requested and on a timely basis to auditors and confirmed that, if there are any issues, the committee would wish to be advised. He set out the anticipated level of engagement with both college staff and the committee and indicated that he expected the college to be very open in terms of areas of strength but also areas of weakness that can be improved. He, on behalf of the Committee, indicated that it was critically important that the college and internal auditors stick to the plan of activity required and that, if there are any proposed changes, these need to come to the committee via discussions with him.

(Andrew Cropley and Jon Fearon joined the meeting at 3.05pm).

1 WELCOME, INTORDUCTIONS AND APOLOGIES FOR ABSENCE

Steve Connors from Haines Watts and Clive Pitt were welcomed to their first meeting and round-table introductions were made. Apologies were noted from Rebecca Joyce.

Signed :  Chair

Date: 13.2.20

2 **DECLARATIONS OF INTEREST**

The Chair reminded everyone present to declare any interests that they may have on agenda items to be discussed. No interests were noted, save for standing declarations.

3 **MINUTES OF THE MEETING HELD ON 27TH JUNE 2019**

The minutes were reviewed and it was agreed that they were an accurate record of discussions.

AGREED: to approve the minutes of the meeting held on 27th June 2019.

There were no matters arising.

5 **ACTION PROGRESS REPORT**

The Committee considered the updates provided on the tracker. A number of aspects were discussed:

- Line 6 – the Finance Director confirmed the intention to commence a full external audit with KPMG in the first week of October. He advised that an interim audit over the summer did not take place. The Committee questioned whether incoming auditors (Mazars) are planning to shadow the 18/19 audit. The Finance Director indicated that he did not believe that arrangements had been made but agreed to have a conversation with Mazars and KPMG to ascertain whether this would be helpful.
- Line 10 – on the agenda
- Line 11 – the Clerk confirmed that an email was received and shared with the Chair.

Fin Dir

Sept.
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AGREED: to note the content of the update provided.

6 **INTERNAL AUDIT – 3 YEAR STRATEGY INCLUDING 19/20 PROPOSED PLAN**

Steve Connors provided a verbal update and confirmed that the team were due to commence their discovery phase on Monday next week. He confirmed that this process would involve discussions with all relevant stakeholders. He provided assurance that previous audit actions will be reviewed over what they anticipate to be a two-week process. He advised that, by the next Audit Committee meeting, they will have developed a strategic plan for the three years and an operational plan for year 1, which will be presented to Governors for approval.

HW

Nov
2019

He indicated the intention to commence audit fieldwork after the next meeting, i.e. 28th November 2019, but explained that, if there were

Signed : _____ Chair

Date:

anything urgent identified in discussions, they may seek to commence early work (with agreement) before the next meeting. He confirmed that the college's risk register will drive the plan that will be created.

In terms of how Haines Watts will engage with the college, he indicated that any changes needed to the plan will be communicated very quickly. It is not their intention to wait until reporting dates and/or meetings, but instead there will be ongoing dialogue throughout the year.

He confirmed that all fieldwork will be completed in the period from December 2019 to June 2020 and, as requested by the Committee, the content of fieldwork assignments will be agreed before onsite activity actually commences. He confirmed that he will ensure that the Committee is very engaged in the process, including annual reviews of the 3 year plan.

The Committee expressed some concern that fieldwork was not expected to commence until the end of November/beginning of December, and they questioned whether there was scope for any early activity on known areas of concern. Internal auditors confirmed that they would be able to undertake their follow-up audit of the prior year earlier than the next meeting, and they could also potentially look at fraud policies and processes, as this is a known area of change and increased focus in the Audit Code of Practice. In relation to the latter, they indicated that it would be their intention to look at fraud and governance arrangements in all areas of fieldwork undertake, therefore it may not be appropriate to have it as a discrete piece of audit work. The Committee acknowledged comments made by the internal auditors but requested that they, together with college staff, find a way to bring the timetable back on track. It was agreed that proposals in relation to this would be circulated outside of the meeting.

HW/Fin Dir
Sept.
2019

7 COMPOSITE COLLEGE RECOMMENDATIONS REPORT

The Finance Director introduced this item and drew Governors' attention to the summary report and also the detailed updates provided. He confirmed that the intention of this agenda item is to summarise the progress made in terms of the completed actions and also explain items still outstanding. The Committee indicated that, on a line by line basis, they would wish to discuss and review the actions not completed, specifically those that are either 'medium' or 'high' priority.

Verbal updates were provided in relation to:

- Subsidiary company dissolution/liquidation – the Finance Director confirmed that both VWS and Vision Apprentices went into liquidation on 25th July 2019. The process in relation to Vision Apprentices should conclude quite quickly, but VWS may be more complicated given the number of creditors.

Signed : _____ Chair

Date:

- Accuracy of ILR data – the Committee made the observation that this is a repeat issue and is also something picked up in the report from RSM at agenda item 5(1). It was agreed to postpone discussions regarding this issue/action until the broader discussions at agenda item 5.
- Eligible activities – it was acknowledged that this also links to the learner numbers (ILR) audit.
- GDPR training – the Finance Director confirmed that the new HR Director appointed is reviewing all mandatory training with staff and that this action will be picked up by her.

In considering the internal audit actions tracker, the challenge from the Committee was that the college has a history of failing to meet agreed deadlines, and this is something that needs to be addressed in terms of what is and isn't acceptable behaviour. The Committee urged staff to again review all of the proposed dates for actions to be completed and ensure that dates agreed are achievable. The Committee indicated that any change in dates proposed has to be presented to the Committee in advance of the actual deadline date so that, going forward, no dates agreed are missed.

The Committee then went on to consider the external actions tracker, and the Finance Director confirmed that a number are now ready to be removed as they are complete; this will enable the presentation of a more focused document. This is something to be agreed with the ESFA at the next case conference.

The Committee considered the tracker on a line by line basis and a number of matters were discussed/noted:

- Line 1 – it was acknowledged that these are matters outside of the college's control
- Line 2 – the college has now made substantial progress in this area
- Line 3 – complete
- Line 4 – staff and governors will have sight of bank covenants in the management accounts going forward, therefore these do not need to be included as a discrete action. The Finance Director advised that October 2020 was a critical date in terms of bank covenants
- Line 5 – this will be reported through the SSG and reports to the Board
- Line 6 – complete
- Line 7 – 16-18 learner numbers are really positive
- Line 8 – this is continuing
- Line 9 – is an ongoing requirement
- Line 10 – is an ongoing requirement
- Line 11 – is an ongoing requirement
- Line 12 – has started and a plan is being developed
- Line 13 – complete

Signed : _____ Chair

Date:

- Line 21 – the Finance Director confirmed that he will review the Financial Regulations again in the autumn term and intends, as part and parcel of this, to pick up some improvement points regarding procurement. The Committee indicated that anything that can be done to improve assurance regarding procurement would be very welcome. The Committee made the suggestion that it is important for the college to be able to monitor aggregate values. The Finance Director confirmed that he personally now approves any expenditure over £500 and therefore is able to see patterns and trends, but he acknowledged that processes need to be in place to allow continued monitoring when the sign-off limit that requires his involvement is increased in the future
- Line 23 – it was confirmed that this action has now been closed down and that the college is now turning its attention to subcontracted AEB provision

Fin Dir

Nov
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As an overview, the Committee took the opportunity to commend staff for the hard work taken to complete many of the actions identified.

AGREED: to note the content of the update provided.

8 AUDIT CODE OF PRACTICE – SUMMARY OF 2019 CHANGES

The Finance Director introduced this item and particularly drew the Committee's attention to annex D (page 30), which provides additional guidance on fraud. He confirmed that the implications will be a key aspect considered in all pieces of audit work this year, rather than being reviewed on a standalone basis. It was acknowledged that the college will need to embed the approach required in the next audit cycle. He indicated that, in response to the additional guidance, it would be advisable to ensure that the 19/20 internal audit plan reviews the college's anti-fraud/corruption policy; this was agreed by the Committee.

The Finance Director advised that changes have been made to the Regularity Self-Assessment checklist that the Principal and the Chair will complete as part of the finalisation of the annual accounts, and that this is a document that will be presented to the joint F&E/Audit meeting in November.

Finance
Director

28.11.19

AGREED: to note the content of the report provided and the changes to the ACOP.

9 RISK REGISTER 2019/20

Before considering the content of the updated risk register, governors indicated that it would be very helpful if, when papers are provided, the register could be available in an A4 printable format rather than A3 so that this can be printed (and read) at home.

Signed : _____ Chair

Date:

The Finance Director introduced this item and explained that the items shaded in yellow on the old register are proposed to be removed. He explained that some risks do move on to the new register but are phrased in a different way because the specifics regarding that risk have changed over time.

Key matters brought to the committee's attention were:

Key changes in the 2019/20 register

- The risks identified in the 2019/20 register are primarily based around achieving key targets within the financial recovery plan and strategic plan, and other wider environmental factors (such as Ofsted)
- There are three sections of the register:
 - The first are the financial risks
 - Second is the other significant risks
 - The third shows all risks that have been deleted, providing a tracking of these risks
- There are currently 20 risks highlighted in the 2019/20 register
- The following risks have been removed/revised:
 - **Old risk 2** – risk of recovery of historic apprenticeship income has been fully provided for in 2018/19 accounts.
 - **Old risk 18** has been replaced by new risk 8.
 - **Old risk 3** has been deleted due to development of potential partnership with NTU to grow local HE.
 - **Old risk 7** (bksb India) has been deleted as costs have been written off in 2018/19 and a small budget allowed for in 2019/20.
 - **Old risk 16** has been removed due to lack of impact in 2018/19. If the risk re-emerges, it will be returned in 2019/20.
 - **Old risk 17** has been removed due to continued healthy margin in bksb.
 - **Old risks 4, 6, 21** have been removed due to the savings achieved in 2018/19 and the renegotiation of the Lloyds loan.
 - **Old risk 10** has been updated by new risk 19.
 - **Old risk 11** Has been updated by new risk 11.
 - **Old risk 9** has been removed due to recruitment to the board.
 - **Old risk 12 and 14** have been replaced by new risks 15 and 16.

The Committee considered the 18/19 register and a number of aspects were noted:

- Line 1 – this remains on the new register but the risk now is any potential Ofsted rating and the impact that this could have on the college's position on RoATP.
- Line 2 – this is now a quantified amount and can be removed
- bksb – risks in relation to bksb have been re-worded on the

Signed : _____ Chair

Date:

new register

The Committee then went on to consider the new register (2019/20) on a line by line basis, and a number of comments/observations were made:

- Line 2 – in relation to the risk appetite, the Committee indicated that they would like to see this possibly being linked to a 5 by 5 matrix. A challenge from the Committee was for the risk appetite to be mapped against the residual to see whether the college is above or below where it wants to be for each of the risks. They suggested that a future development is to look at whether the decision needs to be taken as to whether to 'tolerate' or 'treat' the residual identified risks.
- Line 3 – the Finance Director confirmed that, whilst the college had made a good start in terms of direct delivery of AEB, this is still a fairly high risk item and the impact of failing is high.
- Line 4 – HE numbers – the Committee was advised that the college is currently circa 15% down on target, therefore it is clear that it will not hit the required numbers. It was confirmed that this is a decline on the previous year.
- Line 5 – the Finance Director indicated that he already knows that income will not be exactly as in the budget; for example, 16-18 learners are funded on a lagged basis and this is a challenge when numbers are growing and are above target. There are costs which will not be offset by additional income.
- Lines 6, 7 & 8 are all high risk items, although the Committee was advised that targets are significantly lower than the current position.
- Line 9 is becoming increasingly less likely but it could happen.
- Where residuals are above the target, this means that mitigation and controls are a work in progress.
- GCSE and A-Level results over the summer were discussed. It was explained that A-Levels are following a national trend, but that is not the case for the GCSE results.

Fin Dir

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Standards
Committee

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F&E Comm

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The Committee considered the document in detail and requested a number of changes in terms of format:

- Red risks should always be at the top of the register (even if this means that they do not follow a numerical order)
- All risks should be RAG-rated and colours utilised
- The register should have arrows to show the direction of travel, i.e. whether the risk is increasing, decreasing or staying the same
- A mechanism to be introduced to show when something is moving outside of the risk appetite agreed

It was agreed that the Finance Director would complete the format changes requested and that the register would then be recirculated outside the meeting.

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In relation to HE provision, the committee asked that the Standards Committee review why the college is not recruiting to target and also to review course closure if this is necessary. They also asked that the Finance & Estates Committee consider the financial implications of HE under-recruitment.

AGREED: to note the content of the update provided.

10 **PROCUREMENT – CONTRACT SAMPLE / AUDIT**

The Finance Director presented his detailed written report and acknowledged that there were some learning opportunities. What is clear from this review is that the specification agreed at the start of any tendering process is critical and that the college needs to get this right. In relation to the specific bus tender audited, he suggested that it is important in the future to use external skills and knowledge as this is such a specialised area. He confirmed that the college uses Crescent and Espo procurement contracts heavily and that, in the main, this is appropriate, other than when there are very specialised contracts to be considered.

AGREED: to note the content of the update provided.

11 **FIXED ASSET REGISTER**

The Finance Director confirmed that he had no real concerns regarding the asset valuations and that the register to date has focused on the high risk 'walkable' items and therefore has very much focused on IT. He confirmed that the link has been made with IT registers and that the IT team has checked that any items not recently used have been identified and located. He was pleased to provide assurance that there is very little evidence of asset loss. He confirmed that the register in the main is made up of lots of small immaterial items and that the question for him is the materiality of doing any further work. He provided assurance that the team has focused on the high risk matters. He confirmed that the value of non-IT assets are immaterial so far as the college is concerned.

The Committee in considering the update acknowledged that a full review and update of the entire fixed asset register had been an auditor action agreed by the college and therefore a proper process needs to be followed, if it is the college's view now that completion of this action is not necessary. It was agreed that the Finance Director would present a paper to the next meeting to formally close off this action.

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12 **EXCEPTIONS REPORT**

The Finance Director presented his detailed report and provided an update on a number of aspects:

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- Right Track (subcontractor) – he confirmed that the college is proposing not to contract with them next year. He confirmed that the issue identified was brought to the college’s attention by a subcontractor manager, which is reassuring in terms of staff being able to spot potential issues.
- One to One (subcontractor) – there are concerns regarding the value for money of provision, given that the level of taught hours has been excessively low compared to the recommended hours of learning. He confirmed that the college has done further work with City & Guilds and has submitted a report. The college is not going forward with this subcontractor in 19/20.
- Subcontracting certificate of compliance and subcontract declaration to ESFA – the Finance Director explained that the college was late in commissioning this, therefore did not hit the 31st July 2019 deadline.

The Committee indicated that, whilst key dates have been provided, what is not clear are the planning dates to achieve the deadlines; therefore, Governors cannot test whether actions required are on track, but instead only receive notification once a deadline has been passed or missed. The Principal confirmed that he would review the ‘key dates’ document and would include planning dates as well as deadlines. The Committee was given assurance that the college would schedule the required subcontractor certificate audit work much earlier for the 19/20 year.

Principal

Oct
2019

The Committee questioned whether there were any clawback issues. The Finance Director confirmed that the ESFA have not yet indicated that this would be the case.

(Moushumi Begum from RSM joined the meeting at 4.45pm)

13

INTERNAL AUDIT REPORTS

RSM attended to present two documents.

1) Learner Numbers Audit

In presenting the report it was explained that it includes three areas of review plus follow up actions recommended/agreed. Key matters noted were:

- Page 16 – section 3.5 – it was explained that the timetables only showed the hours that a student could have done, not those that had been planned. It was confirmed that this issue will be addressed as part of the October and November reviews completed internally.
- Page 22 – section 4.4 – evidencing and recording work experience planned and completed as part of the study programme is a focus for the college.

Signed : _____ Chair

Date:

The Finance Director took the opportunity to provide the context for this type of audit, and explained that it was in reality an internal review to identify where processes could have been improved. He indicated that, if this had been an external audit, the college would have been able to drill down to a more detailed level and find any missing data or evidence. He explained that data and evidence is retained in a number of areas and that it is not necessarily available 'at the push of a button' in one location.

Whilst acknowledging the comments made by the Finance Director, the Committee indicated that this report raises concerns and issues regarding the processes, and that they don't yet have assurance and therefore need to know what more is to be done. The Finance Director confirmed that, at the last external audit of the ILR, there were no recovery issues regarding 16-18 numbers, therefore Governors can take assurance from this.

In relation to the recommendations, the Committee was advised that the key is that all required activity for 16-18 learners is planned as opposed to delivered activity, and so the evidence for this is in curriculum areas as well as the MIS system. The Finance Director expressed the view that the outcome of this audit was perhaps a consequence of the college not preparing well enough for the RSM visit. He confirmed that the college will undertake a review exercise after day 42 to check that all students are doing what they should be doing. In relation to work experience, it was confirmed that this is monitored at three points during the year.

A challenge from the Committee was that this report has two high risk repeated items, and they expressed the view that they would have expected as a minimum that the risks had been mitigated to medium, given that this was a known issue from the prior year. A challenge from the Committee is that they are expecting to see, at the next report, a trend of improvement and that it is necessary to see evidence of process improvements. The Committee felt that the report was lengthy and wordy, and they asked that senior staff simplify the issues and say what will be done to address them. They indicated that, at the next meeting, they would want to receive assurance on actions taken and clarity regarding what else needs to be done.

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AGREED: to note the content of the update provided.

2) Annual Report 2019

RSM confirmed that this report is their annual summary of work undertaken in the 18/19 academic year. The overall RAG-rating is amber/green. Key matters brought to the Committee's attention were:

- Page 9 – this summarises the overall position
- Page 5 – summarises the actions agreed

Signed : _____ Chair

Date:

She confirmed that, overall, the number of high risk actions is reducing as a trend, which is positive.

AGREED: to note the update provided.

(Moushumi Begum left the meeting at 5.30pm)

14 **COMMITTEE TERMS OF REFERENCE AND WORK PLAN 2019/20**

The Committee were happy to approve as presented, with no suggested changes to the Terms of Reference to be recommended to the Board.

AGREED:

- a) To continue with existing Committee Terms of Reference.
- b) Approve the work plan as presented.

15 **AOB**

There were no items of additional business.

16 **DATE AND TIME OF NEXT MEETING**

The Clerk confirmed that the next meeting was Thursday 28th November 2019 at 3.30pm.

17 **CONFIDENTIAL ITEMS**

It was agreed that confidential items would be recorded separately.

Auditors left the meeting at 5.30pm

Meeting closed at 5.35pm.

Signed : _____ Chair

Date:

