AUDIT COMMITTEE

APPROVED DRAFT Minutes of the Meeting held on Tuesday 21 November 2017

at 5.50pm in Room 02.03, Osprey House, Redditch Campus

Present Governors:	Kevin Gaffney	Chair
	Denis Miles	
	Gary Woodman	
In Attendance	Stuart Laverick	Principal
	Nicki Williams	Vice Principal Corporate & Resources
	Cherie Clements	Director of Finance
	Bill Devitt	Partner, Grant Thornton UK LLP (External Auditors)
	Lena Grant Pearce	Executive, Grant Thornton UK LLP (External Auditors)
	Louise Tweedie	Risk Assurance Director, RSM Risk Assurance Services LLP (Internal Auditors)
	Sue Frost	Clerk to the Corporation

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12.1 Apologies

i) Apologies for absence were received from Steve Bolton, Debbie Morris, Lucy Hodgson and Kelvin Nash, the Vice Principal Curriculum & Quality.

12.2 Declarations of Interest

i) Members were asked to declare any Interests, financial or otherwise, which they may have in any Agenda Item and confirmed that they had none.

12.3 Audit Committee Concerns

i) Members were invited to raise any issues which they wished to discuss in the absence of College Management and Auditors and agreed that they had none.

The auditors joined the meeting at this point.

12.4 Auditor Concerns

i) The auditors were invited to raise any issues which they wished to discuss in the absence of College Management and agreed that they had none.

The College attendees joined the meeting at this point.

12.5 Minutes of the Previous Meeting

i) The Audit Committee **APPROVED** the revised Minutes and

Confidential Minutes 1 of 2 of the meeting held on 12 June 2017 as an accurate record for signature by the Chair.

12.6 Matters Arising

i) The Audit Committee reviewed the Action Points report and noted progress. Six points had been actioned and two would be reviewed as part of later Items.

ii) The Audit Committee **MONITORED** action taken, and remaining to be taken, in respect of Matters Arising from the Minutes of previous meetings.

12.7 Determination of Any Other Urgent Business

i) There was no other urgent business.

12.8 Audit Committee Performance Review

i) The Clerk to the Corporation reported on the three elements of Audit Committee performance:

- Assessment of compliance with the Terms of Reference. The report on compliance with the Terms of Reference indicated full compliance with the requirements.
- Assessment of effectiveness. The Clerk to the Corporation provided an updated analysis. Eight respondents had completed the Audit Committee Effectiveness Aide-Memoire. Effectiveness was considered as 63% 'Fully satisfactory', 32% 'Above Average', 3% "Occasionally/Below Average" and 2% "Not Applicable" across the range of areas covered, an improvement on the previous year.
- Benchmarking attendance. Audit Committee Members' attendance was stable at 86% in 2016/17 and 2015/16, with no Member missing more than one meeting.

ii) Training had been provided as requested. Louise Tweedie, Director RSM Risk Assurance Services LLP (Internal Auditors) had presented a Sector Update Training Briefing for Members on 6 March 2017. Both sets of Auditors had kindly provided training for Gary Woodman before the meeting on 12 June 2017, which was also attended by Steve Bolton and Denis Miles.

iii) Members discussed changes proposed to the Terms of Reference to reflect the requirements of the Post-16 Audit Code of Practice 2016 -17 and agreed the following highlighted changes:

- 1.2 These Terms of Reference are based on the minimum Terms of Reference and other requirements detailed in the Audit Code of Practice, the Joint Audit Code of Practice and the Post-16 Audit Code of Practice 2016 -17 as well as ICSA Guidance.
- 3.5 The Audit Committee has the responsibility to include individuals with an appropriate mix of skills and experience to allow it to discharge its duties effectively. Collectively, Members of the Committee should have recent, relevant experience in risk management, finance ~~and audit~~ and assurance.
- The principal responsibilities of the Audit Committee shall be:
  7.16
  - to produce an annual report for the Corporation

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summarising the Committee's activities relating to the financial year under review, including:…….

- the Committee's opinion on the adequacy and effectiveness of the College's ~~audit~~ assurance arrangements, framework of governance, risk management and control processes~~, and its processes for securing economy, efficiency and effectiveness~~ for the effective and efficient use of resources, solvency of the institution and the safeguarding of its assets

- 7.19
  - to monitor the integrity of the annual financial statements, reviewing significant financial reporting issues and judgements which they contain; In particular reviewing and challenging where necessary:……
  - all material information presented with the financial statements~~, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management)~~

iv) The Audit Committee

- **MONITORED** its effectiveness in 2016/17 and concluded, based on compliance with Terms of Reference, Audit Committee Effectiveness Aide-Memoire responses and attendance that it was effective.
- **REVIEWED** the Terms of Reference for the Audit Committee and **AGREED TO RECOMMEND** changes to the Corporation for approval on 5 December 2017. **CC**

12.9 2016 – 17 Financial Statements

i) Regularity Assurance Review and Regularity Self Assessment Questionnaire

The Director of Finance explained that the Regularity Self Assessment Questionnaire was completed by the College for the External Auditors to inform the Regularity Audit. It included finance and governance items.

The Audit Committee **REVIEWED** the Regularity Self Assessment Questionnaire and **RECOMMENDED** that the college accounting officer and Corporation Chair sign it. **P/ Corp Ch**

ii) Financial Statement Auditors Audit Findings Report and Letter of Representation

The External Audit Partner led Members through the Audit Findings Report page by page. The auditors planned to issue an unmodified opinion on the financial statements, had not found any control weaknesses requiring reporting. For Regularity Audit there were no material findings and an unqualified regularity opinion would be given within the financial statements. There were no issues arising in respect of the risks identified before the audit, including pension fund liability. Governors should note that the College had revised the actuarial assumptions with regard to future pay in the underlying calculation and this had been reviewed and accepted by Grant Thornton's actuary. The Director of Finance confirmed that this had reduced the deficit by £1.2m.

The Auditors had reviewed forecasts and sensitivities and

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concurred with the College's view that the College remained a Going Concern despite the breach of the NatWest loan covenant. The Director of Finance confirmed that NatWest would review the covenant position once they had received the Financial Statements. The Auditors had considered whether to include a note in respect of the E-Response funding clawback but were content that this related to historic years.

There were no modifications to the standard Letter of Representation requested by the Auditors apart from the change to actuarial assumptions on the Pension Scheme valuation.

The External Auditors thanked the Director of Finance and finance office staff for their assistance in the audit process.

The Audit Committee

- **REVIEWED** the findings of the Financial Statements audit with the external auditor
- **AGREED TO ADVISE** the Corporation that no material control issues were identified in the Financial Statements Auditors Audit Findings Report in respect of the accounts of Heart of Worcestershire College for the year ended 31 July 2017
- **AGREED TO RECOMMEND** the Financial Statements Auditor's Audit Findings Report (which included the Letter of Representation) for the year ended 31 July 2017 to the Corporation for approval on 5 December 2017 **CC**

iii) Going Concern Review

The Director of Finance explained the current year and projected 2018/19 financial plans, cashflow and financial health positions. The lowest potential cash balance would be £7.6m in March 2019. Governors asked what the greatest risk was to the future cashflow forecast and the Director of Finance stated that this was the Apprenticeships moving to a non-profiled payments basis. The College would now receive payments from the Education and Skills Funding Agency based on actual starts/attendance once the Apprentices are on the Individualised Learning Record. Partners were also paid on actual starts/attendance (this was clearly recorded in contracts). However there was the possibility that this could cause cashflow difficulties for the partners who might not have the financial stability of a College. In answer to a question from the Chair, ~~that~~ the Principal confirmed ~~that~~ that the College would not provide financial support to partners that were experiencing difficulties with income related to Apprenticeships. The Internal Auditors had Apprenticeships in the annual plan and it would be helpful for the Audit Committee to have a presentation from the Director Employer and External Relationships on 13 March 2018. The Principal, Vice Principal Corporate & Resources and Director of Finance stated that they supported the fact that the College was a going concern. **CC/DEER**

The Audit Committee **RECEIVED** confirmation from College Management that the Going Concern basis remains appropriate and **RECEIVED** the cashflow forecast for the period to 31 July 2019.

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iv) Financial Statements

The Director of Finance stated that the Financial Statements showed an operating deficit of £781k before restructuring and pension costs charged to the Statement of Comprehensive Income, and a deficit of £2,981k after these charges. The Total Comprehensive Income for the year was £3,231k after including the Actuarial gain in respect of pension schemes. A reconciliation to the management accounts had been provided to the Corporation on 10 October 2017.

Neither the Auditors nor the Members had spotted any typographical errors in the accounts. The table of Members would need to be amended to reflect the position up to the date of signing. **CC**

The Audit Committee **MONITORED** the integrity of the annual Financial Statements, reviewing significant financial reporting issues and judgements which they contained and **REVIEWED** the Statement of Corporate Governance and Internal Control.

v) Financial Statements Recommendation

The Audit Committee **AGREED TO RECOMMEND** the Heart of Worcestershire College Financial Statements for the year ended 31 July 2017 to the Corporation for approval on 5 December 2017. **CC**

The Audit Committee Chair and Members thanked the Vice Principal Corporate & Resources, the Director of Finance and the Finance Team for their hard work in respect of the Financial Statements and Audit for 2017/18.

The External Audit Partner left the meeting at this point.

vi) Teachers Pension Statement

The Audit Committee

- **NOTED** the Engagement Letter with Grant Thornton
- **NOTED** that the Teachers' Pension Statement would be presented to the Corporation meeting on 5 December 2017 **CC**

vii) Subsidiary Company Accounts

The Director of Finance reminded Members that the College had two subsidiary companies which filed dormant accounts. The companies would hold Annual General Meetings to approve their accounts. The companies were retained for potential future use and for VAT reasons for NEWCEL.

The Audit Committee **NOTED** the Molinna Ltd and NEWCEL Accounts.

12.10 Internal Audit Annual Report 2016/17

i) Louise Tweedie, Risk assurance Director, RSM Risk Assurance Services LLP presented the Annual Report. The audit opinion, "The organisation had an adequate and effective framework for risk management, governance and internal" was the highest level of support that could be provided because no recommendations had been made and green opinions had been given in all reviews. The report included a summary of the work completed during the year.

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ii) The Audit Committee **AGREED TO ADVISE** the Corporation that there were no significant issues arising from the Internal Auditor's Annual Report for the year ended 31 July 2017 and **AGREED TO RECOMMEND** the Internal Audit Annual Report to the Corporation for approval on 5 December 2017. **CC**

12.11 Audit Committee Annual Report

i) The Clerk to the Corporation talked members through the draft Audit Committee Annual Report agreeing wording to be used from reports included as Agenda Items and in the conclusion sections. Members were in agreement with the proposed wording.

ii) The Audit Committee

- **PRODUCED** the Audit Committee's Annual Report to the Corporation for the year ended 31 July 2017
- **DELEGATED** authority to the Audit Committee Chair to approve the final version for submission to the Corporation on 5 December 2017. **AC Chair/ CC**

12.12 Risk Register and Assurance Framework

i) **Effective Board Briefing on Committees and Risk**

Members noted that the briefing applied to companies of all sizes and in all sectors and was not wholly applicable. However, the Chair felt that the Audit Committee avoided the areas of bad practice in the Briefing.

The Audit Committee **CONSIDERED** the Effective Board briefing on Committees and Risk from Independent Audit.

Risk Management 2016/17 Report

i) The Vice Principal Corporate & Resources presented the Risk Management Annual Report, which summarised the development of Risk Management from the 2015/16 approach into 2016/17. This included changes to the Assurance Framework in respect of Internal Audit work links. The report included a summary of the Summer term 2017 review and High Risks.

The Audit Committee **REVIEWED** the Risk Management Annual Report 2016/17 and **AGREED TO RECOMMEND** it to the Corporation for approval on 5 December 2017. **CC**

ii) **Risk Management Plan 2017/18 and Strategic Risk Register**

The Vice Principal Corporate & Resources presented the Risk Management Plan 2017/18 and the Strategic Risk Register – Autumn Term 2018. The Plan had been updated to reflect staff changes and the Risk Register included more significant changes – including the requested addition from Matters Arising of the risk of political instability.

The full Risk Register was available on the Governor Portal. All changes to the full Risk Register were listed and the Strategic Risk Register for Autumn term 2017/18 with changes highlighted and a summary page showing the scoring and classification of all risks were included in the papers. As normal, there were more high / red risks in the Autumn Term. Governors asked the Internal Audit Director whether any risks had been missed and she confirmed

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That there was nothing obvious although issues were emerging with staff morale due to the lack of pay increments. The Vice Principal Corporate & Resources confirmed that staff members were sometimes lost but generally to schools or to industry. The AoC salary survey indicated that the College pay levels were similar to those in other Colleges and turnover was better than average even after restructuring.

Risks were monitored across the Departments. Members considered how to monitor risks, in 2017/18, having had a series of risk presentations in the past. In addition to the Apprenticeship presentation on 13 March 2018 a paper was requested to show progress against Student Number targets. Members discussed T-Level risks as there were significant issues with the potential space and manpower capacity increases, but guidance was not finalised and the pilot for the Work Experience element was likely to be in 2018/19. **DF/VPCR**

The Audit Committee:

- **CONSIDERED** the Audit Committee's approach to monitoring the Risk Register in 2017/18
- **MONITORED** the revised Risk Register
- **CONSIDERED** action proposed to address assurance gaps in 2017/18
- **AGREED to RECOMMEND** the Risk Management Plan 2017/18 and Autumn Term 2017 Strategic Risk Register to the Corporation for approval

12.13 Annual Procurement Report

i) The Director of Finance presented the Procurement report which included a review of procurement activity during 2016/17 including spend values that exceed £50,000 during the year and initial plans for 2017/18. The Director of Finance explained that the College continued to use Tenet to provide procurement services and estimated savings were captured as part of that process. Estimated savings had not been reported to Governors for some years although economies of scale had been achieved as a result of the merger process.

ii) The Vice Principal Corporate & Resources proposed that the Planned Maintenance contract savings could be evaluated in 2018/19. **CC/VPCR**

iii) The Audit Committee **REVIEWED** the Procurement Report for 2016/17 and **AGREED TO RECOMMEND** it to the Corporation for monitoring on 5 December 2017. **CC**

12.14 Internal Audit Reports

i) Louise Tweedie, Risk Assurance Director, RSM Risk Assurance Services LLP presented the Progress Report which included possible uses for the five Governance days planned for January 2018. Members discussed the options and agreed that this was the only suitable point at which to review Strategic Planning while the new Strategic Plan was in its early stages. Although it might be useful to use the days for a core governance audit, the Governance Stocktake exercise meant that this could be usefully done at a later

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point.

ii) The Chair discussed the issue in Matters Arising from the previous meeting. The Audit Committee wished to refine the 38 day audit plan and had reserved 22 days (taking the days to the previous level) to address any areas of increased risk identified by the Audit Committee at this point. Members agreed that there were no immediate concerns but requested that the possible addition of up to 22 audit days be discussed at the next meeting.

iii) The Audit Committee

- **AGREED TO ADVISE** the Corporation that a Progress Report had been received from RSM
- **REVIEWED** planned days and **AGREED TO CONSIDER** adding additional days if appropriate to the agreed plan at the meeting on 13 March 2017 **CC**

12.15 Students Union Accounts

i) Members asked why the income had doubled and who controlled expenditure. The Vice Principal Corporate & Resources explained that the accounts were not on an accruals basis and that some income related to the previous year. The money was spent through the Student services Team.

ii) The Audit Committee **AGREED TO RECOMMEND** the Students' Union Accounts to the Corporation for approval on 5 December 2017 **NOTING** that a report would be provided for that meeting. **CC**

12.16 Disaster Management

i) Appendix 10 was included in the papers with the full document in the Supporting Papers folder.

ii) The Audit Committee **NOTED** that the Emergency Management and Business Continuity Plan contact lists had been brought up to date and **AGREED TO RECOMMEND** changes to Appendix 10 (The Prince's Trust Crisis Plan) to the Corporation for approval on 5 December 2017.

The Auditors left the meeting at this point.

CONFIDENTIAL ITEMS

12.17 Minutes of the Previous Meeting

i) The Audit Committee **APPROVED** Confidential Minutes 2 of 2 of the meeting held on 12 June 2017 as an accurate record for signature by the Chair.

12.18 Matters Arising

i) The Audit Committee reviewed the report and noted that both points had been actioned.

12.19 Review of Performance of External Auditors

i) This matter is recorded as Confidential Minute 1 of 3

12.20 Audit Tenders

i) This matter is recorded as Confidential Minute 2 of 3

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12.21 Subcontracting Control Audit 2016/17

i) This matter is recorded as Confidential Minute 3 of 3

12.22 Any Other Urgent Business

There was no other urgent business.

12.23 Date and Time of Next Meeting

i) Audit Appointments (members to notify availability): 12pm The Source, All Saints Building, Worcester
Tuesday 13 March 2018, 5pm, The Source, All Saints Building, Worcester

The meeting closed at 7.20pm.

Signed:

Date:

Sue Frost
Clerk to the Corporation
22 November 2017

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