

AUDIT COMMITTEE

APPROVED DRAFT Minutes of the Meeting held on Tuesday 20 November 2018

at 5.30pm in The Source, All Saints' Building, Worcester

Present

Governors:

Kevin Gaffney	Chair
Lucy Hodgson	
Tony King	
Denis Miles	
Debbie Morris	
Sue Nicholls	

In Attendance:

Stuart Laverick	Principal
Cherie Clements	Director of Finance
Tony Felthouse	Senior Manager, KPMG (External Auditors)
Asam Hussain	Senior Manager, RSM Risk Assurance Services LLP (Internal Auditors)
Sue Frost	Clerk to the Corporation

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15.1 Apologies

- i) Apologies were received from Nicki Williams, the Vice Principal and Deputy Chief Executive. Steve Bolton was on approved leave of absence from the Corporation until 1 March 2019. The Chair welcomed Tony King and Sue Nicholls to their first meeting.

The attendees left the meeting at this point.

15.2 Declarations of Interest

- i) Members were asked to declare any Interests, financial or otherwise, which they may have in any Agenda Item. Tony King declared that KPMG were also auditors of Sanctuary Housing but with a different manager and partner and Members agreed to note this with no further action required. Other Members confirmed that they had no interests to declare.

15.3 Audit Committee Concerns

- i) Members were invited to raise any issues which they wish to discuss in the absence of College Management and Auditors and all confirmed that there were none.

Tony Felthouse, Senior Manager, KPMG and Asam Hussain, Senior Manager, RSM Risk Assurance Services LLP returned to the meeting at this point

15.4 Auditor Concerns

- i) The Auditors were invited to raise any issues which they wish to

discuss in the absence of College Management and all confirmed that there were none. Audit Committee Members had noted the comment made about Principals attendance at Audit Committee meetings in the responses to the Audit Committee Self Assessment and asked the auditors what was normal practice. The auditors felt that this was 50:50. The Internal Audit Senior Manager confirmed that the presence of the Principal was at Heart of Worcestershire College was a positive feature, not a detriment.

The Principal and Deputy Chief Executive and Director of Finance returned to the meeting at this point.

15.5 Minutes of the Previous Meeting

- i) The Audit Committee **APPROVED** the Minutes of the meeting held on 15 June 2018 as an accurate record for signature by the Chair.

15.6 Matters Arising

- i) The Chair reported that six actions had been completed, and three would be considered in the course of the meeting.
- ii) The Audit Committee **MONITORED** action taken, and remaining to be taken, in respect of Matters Arising from the Minutes of previous meetings.

15.7 Determination of Any Other Urgent Business

- i) There were no other items of urgent business.

15.8 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 in the papers indicated full compliance with the requirements.
 - Assessment of effectiveness. Seven respondents had completed the Audit Committee Effectiveness Aide-Memoire. Effectiveness was considered as 66% 'All of the time/Fully satisfactory, 31% 'Most of the time/Above average', 1% "Occasionally/Below Average" and 2% "Not applicable" across the range of areas covered, an improvement on the previous year.
 - Benchmarking attendance. Audit Committee Members' noted that attendance was at 78%, a reduction from the 86% in 2016/17.
- ii) The Clerk to the Corporation drew Members' attention to the comments under the Audit Committee Effectiveness Aide-Memoire scores. Members discussed with the Principal the comment about Principal attendance and the Principal confirmed that he felt that this was important in order to ensure financial wellbeing. This may not have been the case in some Colleges in financial difficulties. The Clerk to the Corporation explained to the auditors that the Corporation had written to Eileen Milner, Chief Executive of the Education and Skills Funding Agency and had taken action recommended in order to reappoint the Staff Member to the Audit Committee.
- iii) Members noted changes proposed to the Terms of Reference to reflect the requirements of the Post-16 Audit Code of Practice 2017 - 18, the Statement of Governance Principles and Scheme of

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Delegation and changes in terminology.

- iv) The Audit Committee
- **MONITORED** its effectiveness in 2017/18 and concluded, based on compliance with Terms of Reference, Audit Committee Effectiveness Aide-Memoire responses and attendance that it was adequate and effective
 - **REVIEWED** the Terms of Reference for the Audit Committee and **AGREED TO RECOMMEND** changes to the Corporation for approval on 4 December 2018.

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15.9 2017 – 18 Financial Statements

i) Engagement Letter

The Audit Committee considered the Engagement Letter and

- **AGREED TO ADVISE** the Corporation that the scope and objectives of the work of the external auditor set out in the Engagement Letter with KPMG were standard terms
- **AGREED TO RECOMMEND** the Engagement Letter to the Corporation for approval for signature by the Chair on 4 December 2018.

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ii) 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. There were no areas of non-compliance to report. Tony Felthouse, Senior Manager, KPMG explained that the external auditors used it to direct testing and focus work.

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

P/ Corp
Chair

iii) External Audit Report to the Audit Committee

Tony Felthouse, Senior Manager, KPMG, presented key findings from the External Audit Report to the Audit Committee. The three significant risks of Pension Liabilities, Revenue Recognition and Management override of controls were present in all Colleges. No additional risks had been identified. The pensions were the key areas of judgment and assumptions overall were within range. There was one small unadjusted error in the accounts which did not affect the results and the final funding reconciliation was still awaited from the Education and Skills Funding Agency. There was no evidence of management override of controls and no control deficiencies were identified, which was unusual and a good result. Further work had been carried out on the outstanding items and the auditors expected to provide unqualified opinions in respect of the Financial Statements and Regularity of expenditure.

The Principal opened a discussion about how to mitigate pension risks. The Audit Committee Chair felt that the College followed good practice and made adjustments in accordance with actuarial advice. (Which the College did challenge in terms of expected salary multiples.) The pension deficit was reducing. The Principal felt that the pension costs prevented the College from competing with private

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training providers although a change in approach could affect recruitment and retention of staff. Tony Felthouse stated that the Association of Colleges was lobbying for support for additional Teachers Pension Fund costs.

The Audit Committee Chair asked about the experience of working with new auditors. The Director of Finance stated that some issues had been caused by KPMG's different approach. For example fee income was audited using IT data analytics to generate an assumed income figure rather than by interrogating the make up of the figure itself. The resulting gap had been acceptable to the College, who understood the variables, but required discussion at higher levels than the Audit staff on site. The secure portal was appreciated for the exchange of documents.

The Audit Committee Chair thanked the Director of Finance and the Finance Office Team for their assistance in the audit process which had produced such a clean report. There had also been considerable change within the team and Members noted the effective development and use of Apprentices within it.

The Audit Committee

- **REVIEWED** the findings of the audit with the external auditor
- **AGREED TO ADVISE** the Corporation that no material control issues were identified in the External Audit Report to the Audit Committee in respect of the accounts of Heart of Worcestershire College for the year ended 31 July 2018
- **AGREED TO RECOMMEND** the External Audit Report to the Audit Committee for the year ended 31 July 2018 to the Corporation for approval on 4 December 2018.

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iv) Letter of Representation

The Director of Finance and Principal, representing College Management, **CONFIRMED** that the contents and representations in the Letter of Representation are appropriate, that risk management and internal controls have operated effectively in their areas of responsibility throughout 2017/18 and that that the College has complied with the Financial Memorandum.

The Audit Committee **REVIEWED** the Letter of Representation for the year ended 31 July 2018 and **AGREED TO RECOMMEND** it to the Corporation for approval on 4 December 2018.

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v) Going Concern Review

The papers included a report covering the Financial Plan, Cash and Reserves, Loans and Covenants, Financial Health, Sources of Funding and Budgeting as well as cashflow forecasts to July 2020. The cashflow did not assume that the College would receive grant funding from the Worcestershire LEP for the Engineering development, but the Principal reported that this had been approved. The Principal and Director of Finance supported the fact that the College was a going concern, able to meet its liabilities as they fell due until July 2020 and onwards for the medium term.

The Audit Committee Chair requested a simple schedule showing cash balances/liquid reserves from merger to 2019/20, accepting that

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this would need to be adjusted for capital expenditure, loan pay off etc. Members noted that a decision on cash holding levels would need to be taken in future in order to prevent changes to the current ratio tipping the College from Good Financial Health to Satisfactory.

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 2020.

vi) Financial Statements

The Director of Finance stated that the Financial Statements showed an operating deficit of £642K before restructuring and pension costs charged to the Statement of Comprehensive Income, and a deficit of £2,146K after these charges. The Total Comprehensive Income for the year was £6,695K after the significant actuarial gain in respect of pension schemes is included of £8,841K.

The Audit Committee:

- **MONITORED** the integrity of the annual Financial Statements, reviewing significant financial reporting issues and judgements which they contained
- **REVIEWED** the Statement of Corporate Governance and Internal Control
- **AGREED TO RECOMMEND** the Heart of Worcestershire College Financial Statements for the year ended 31 July 2018 to the Corporation for approval on 4 December 2018 **SUBJECT TO** minor amendments such as the correction of typographical errors and final review from the Audit Committee Chair

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DF/ Chair

vii) Teachers Pension Statement

The Director of Finance explained that the College was required to submit to the Teachers' Pension Scheme an End of Year Certificate confirming contributions deducted and paid over. The Corporation Chair had been asked to sign the Engagement Letter in order for KPMG to provide the certificate for the Teachers' Pension Deadline in September. KPMG provided this certificate as part of their appointment. This was a standard contribution audit across all education providers with a March year end to match the Teachers' Pension Scheme year. No exceptions or errors were identified.

The Audit Committee **NOTED** the Engagement Letter with KPMG and **RECEIVED** the Teachers' Pension Statement which would proceed to the Corporation on 4 December 2018.

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viii) Subsidiary Company Accounts

The College had two subsidiary companies which filed dormant accounts. The companies would hold Annual General Meetings to approve their accounts on 4 December 2018. The companies were retained for potential future use and for VAT reasons for NEWCEL.

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

Members agreed to change the Agenda order and take Item 15.4 next.

15.14 Internal Audit Reports

- i) Asam Hussein, Senior Manager, RSM Risk Assurance Services LLP presented the Apprenticeships – Framework Review. There were two high, one medium and two low priority recommendations. The Internal Audit Opinion was at amber level, providing reasonable assurance with control framework issues to be addressed to manage risk effectively. There were sector wide issues with evidencing price negotiations for individual programmes with employers which was a Government directive to ensure value for money. The College had not awarded all contracts at the maximum price band. There were also issues across Colleges with the lack of clarity around interpretation and monitoring of the 20% Off the Job training requirement.
- ii) The Follow Up report noted progress against the four 'Medium' and eight 'Low', priority recommendations, one 'Suggestion' and one 'Advisory' points raised in the previous year. Seven of the fourteen actions had been implemented, five had been superseded, one had implementation ongoing and one had not been implemented. The opinion was that the College had demonstrated reasonable progress in implementing agreed management actions with 86% implemented or superseded.
- iii) The Audit Committee **NOTED** the Apprenticeships – Framework Review and Follow Up report and **AGREED TO ADVISE** the Corporation that: **CC**
- The Apprenticeships – Framework Review report provided Reasonable Assurance (amber) with one two high, one medium and two low priority recommendations
 - The Follow Up review demonstrated reasonable progress in implementing agreed management actions.

15.10 Internal Audit Annual Report 2017/18

- i) Asam Hussein, Senior Manager, RSM Risk Assurance Services LLP presented the Annual Report. The audit opinion was amber-green: "The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework for risk management, governance and internal control to ensure that it remains adequate and effective". This opinion was given to the majority of Colleges. Members discussed the value gained through targeting Internal Audit reviews at difficult areas where recommendations were likely to arise. The report included a summary of the work completed during the year.
- 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 2018 which concluded that the College framework was adequate and effective with scope for further enhancement and **AGREED TO RECOMMEND** the Internal Audit Annual Report to the Corporation for approval on 4 December 2018. **CC**

15.11 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

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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 2018
- **DELEGATED** authority to the Audit Committee Chair to approve the final version for submission to the Corporation on 4 December 2018.

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Chair/
CC

15.12 Risk Register and Assurance Framework

i) **Risk Management 2017/18 Report**

The Principal presented the Risk Management Annual Report, which summarised the approach review and actions taken in 2017/18, and the operation of the Risk Management Policy and the development of the Risk Register from merger to the present. The Principal was happy with the College approach and risk appetite, noting that there was also risk in taking no risks. The Director of Finance stated that the risk process involved termly meetings of all teams to consider risk reduction activity and new risks which fed upwards, with a similar high level process cascading down. The Staff Governor confirmed this practice and the Chair remarked that this demonstration of the ownership and awareness of risk beyond the Senior Leadership Team showed the value of retaining a Staff Governor on the Audit Committee.

Members discussed the risk approach and challenged staff, asking:

- Why was the Risk Register only reviewed on a termly basis? (This would be monthly in the NHS.) The auditors felt that this was normal, fitting with the management and Audit Committee cycle. The Principal felt that there would be more movement in the NHS Risk Register as it would directly relate to changes in patient outcomes necessitating swift action. The Director of Finance stated that action would be taken as risks emerged, which would be recorded at the termly review.
- Would it be possible for staff to have access to the whole register to see how their part related to the whole? Yes, the Risk Register was not a confidential document and could be placed on the Staff Portal.

VPDCE

The Audit Committee **REVIEWED** the Risk Management Annual Report 2017/18 and **AGREED TO RECOMMEND** it to the Corporation for approval on 4 December 2018.

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ii) **Risk Management Plan 2018/19 and Strategic Risk Register**

The Principal presented the Risk Management Plan 2018/19 and the Strategic Risk Register – Autumn Term 2018. The Plan had been updated to reflect staff changes.

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. The Principal talked through changes to individual risk scores, in particular increased risks related to Engineering provision and development and to GDPR.

Action

Members considered how to monitor risks, in 2018/19, having had a series of risk presentations in the past, concentrating on Apprenticeships in 2017/18. The Principal suggested that the key risk emerging in the new Ofsted Common Inspection Framework, which had featured in the College's Inspection, was effective monitoring of Student Progress. Members agreed that there should be a presentation on this theme to the Spring Term meeting.

P/CC

The Audit Committee:

- **CONSIDERED** the Audit Committee's approach to monitoring the Risk Register in 2018/19
- **AGREED TO RECOMMEND** the Risk Management Plan 2017/18 to the Corporation for approval on 4 December 2018
- **MONITORED** the College Autumn Term 2017 Strategic Risk Register

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15.13 Annual Procurement Report

i) The Director of Finance apologised for the late delivery of the paper and presented the Procurement Report which included a review of procurement activity during 2018/19 including spend values that exceed £50,000 during the year. The Director of Finance explained that the College continued to use Tenet to provide procurement services. Tenet had originally concentrated on high value services but were now achieving savings at the next level down, for example £6K across the College sites on water dispensers. The intercampus bus service between Bromsgrove and Redditch remained an issue but public transport was not an option. The high cost per student was part of the commitment to run provision across sites.

ii) The Audit Committee **REVIEWED** the Procurement Report for 2017/18 and **AGREED TO RECOMMEND** it to the Corporation for monitoring on 4 December 2018.

CC

15.15 Students Union Accounts

i) The Director of Finance stated that the Students' Union had underspent against its income. The Students' Union had been invited to review its activity level to use more of its funds in year for students' benefit.

ii) The Audit Committee **AGREED TO RECOMMEND** the Students' Union Accounts to the Corporation for approval on 4 December 2018 **NOTING** that an activity report would be provided for that meeting.

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15.16 Whistleblowing Procedure

i) The Clerk to the Corporation reported that the existing Procedure had been reordered and revised with a new flowchart. However, it was now in danger of being cluttered and had been held back pending consideration in the light of a recently found College example and a University example sent by the Internal Audit Director. The Clerk to the Corporation, Principal and Vice Principal and Deputy Chief Executive would meet to discuss the alternative approaches.

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VPDCE

ii) The Corporation **NOTED** progress towards a revised Whistleblowing Procedure which would return to the Committee in the spring term.

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15.17 Any Other Urgent Business

There was no other urgent business.

15.18 Date and Time of Next Meeting

- i) The Chair was not available for the meeting proposed for Tuesday 5 March 2019, 5pm for 5.30pm, O2.03, Osprey House, Redditch. Dates would be circulated amongst Members to see if an alternative were possible.

**Chair/
CC**

CONFIDENTIAL ITEMS

- 15.19** These Matters are recorded as Confidential Minutes 1 of 2.

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15.21

The Auditors left the meeting at this point

RESTRICTED CONFIDENTIAL ITEMS

- 15.22** These Matters are recorded as Confidential Minutes 2 of 2.

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15.23

The meeting closed at 7.50pm.

Signed:

Date:

Sue Frost
Clerk to the Corporation
21 November 2018