



AUDIT COMMITTEE

FINAL SIGNED Minutes of the Meeting held on Tuesday 25 June 2019

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

Present

Governors:

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

In Attendance:

Stuart Laverick	Principal
Nicki Williams	Vice Principal and Deputy Chief Executive Officer
Cherie Clements	Director of Finance
Tony Green	Director, Funding, Data and External Contracts
Marc Harvey	Assurance and Compliance Manager
Louise Tweedie	Director, RSM Risk Assurance Services LLP (Internal Auditors)
Katie Scott	Manager, KPMG (External Auditors)
Sue Frost	Clerk to the Corporation

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17.1 Apologies

i) There were no apologies for absence.

17.2 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.

17.3 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.

Louise Tweedie, Director, RSM Risk Assurance Services LLP and Katie Scott, Manager, KPMG, joined the meeting at this point

17.4 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.

The Principal, Vice Principal and Deputy Chief Executive Officer, Director of Finance, Director, Funding, Data and External Contracts and Assurance and Compliance Manager joined the meeting at this point

17.5 Minutes of the Previous Meeting

- i) Two corrections were highlighted in the Minutes. The Audit Committee **APPROVED** the revised Minutes of the meeting held on 5 March 2019 as an accurate record for signature by the Chair.

17.6 Matters Arising

- i) The Clerk to the Corporation reported that four actions had been completed, one carried forward (Review of Integral in 2020) and two would be addressed 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.

17.7 Determination of Any Other Urgent Business

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

17.8 Risk Register and Assurance Framework

i) Strategic Risk Register – Summer Term Update

The Vice Principal and Deputy Chief Executive Officer presented the Summer term Strategic Risk Register and summary showing the scoring and classification of all risks following review by the Risk Management Group. The full Risk Register was available in the supporting papers folder on the Governor Portal. Governors noted the addition of column headings to each page as requested, with thanks to Donna Gibson. Details were provided of the changes in individual risk scores:

- Risk of breaching bank covenants. Reduced from (12) HIGH to (9) MEDIUM to reflect removal of Nat West covenant which indicated a risk of breaching. Revised risk level reflected the projected deficit for 2018/19, reduced reserves due to the Engineering facilities development and the impact of those factors on remaining bank covenant calculations.
- Security concerns. Increased from (4) LOW to (9) MEDIUM to reflect increased level of on-site incidents experienced during 2018/19 particularly at Peakman Campus involving students, parents and associates.
- Governor recruitment & Corporation diversity Increased from (6) MEDIUM to (9) MEDIUM to reflect inability to improve diversity during 2018/19 and inability to progress further until vacancies arise.

In addition to the scoring changes the wording to a number of risks had been strengthened to note the current situation in respect of historical issues in Engineering provision and staffing.

A Governor challenged the Clerk to the Corporation asking why the recruitment risk had been increased as the Governance and Search

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Committee had done all it could in terms of recruitment and had always selected the best candidate interviewed. The Clerk to the Corporation stated that the Corporation's lack of diversity remained an issue and that the risk had been increased as there were currently no vacancies and therefore there was little scope to seek diverse applicants until more recruitment activity in 2019/20.

The Audit Committee **MONITORED** the College Risk Register.

ii) **Further Education Risk Register Analysis - Managing risks effectively, efficiently and proportionally – 2019 analysis**

Louise Tweedie, Director RSM Risk Assurance Services LLP, presented the report, highlighting the changes to the top five risk themes. Finance and Strategy remained the highest risk, with increased scores compared with the previous year. At risk 5 compliance had displaced collaboration/mergers, probably due to the focus on Apprenticeships and the General Data Protection Regulations.

Governors felt that the report was a really useful summary document and challenged the Vice Principal and Deputy Chief Executive Officer, asking whether any compliance risks in the Risk Register should be increased in response to the heightened sector perception and whether there would be benefit in Governors being given confirmation of the College position in respect of the report. The Vice Principal and Deputy Chief Executive Officer responded that most of the risks in the document were in the Risk Register and that key aspects would also be covered by Internal Audit reports. The Principal noted that some Colleges reported Health and Safety risks being increased as a lack of investment in maintenance, which was a result of the funding crisis and was not an issue in the College.

The Chair asked Members if anything had arisen from the reports as subjects requiring risk presentations to the Audit Committee:

- The Vice Principal and Deputy Chief Executive Officer agreed to produce a brief summary of assurances in key areas.
- A presentation to the Audit Committee was requested on the risks involved in T-Levels and the interaction with the current general qualifications such as BTECs.
- Members discussed whether a presentation on insolvency with particular reference to algorithmic analysis or stress testing of closeness to insolvency would be useful. The Vice Principal and Deputy Chief Executive Officer stated that the ESFA's Financial Forecast included elements of stress testing and that financial KPIs (including cashflows) were reported at each Corporation meeting. The Director of Finance confirmed that the 2019/20 Budget and the 2020/21 financial projections would be presented to the Corporation on 16 July 2019 which included some sensitivity analysis. Governors were aware that a combination of two "amber" situations could result in a "red" situation and identified Funding, Student Numbers, Pension costs and Pay Awards as key factors for ongoing monitoring. All agreed these were systemic sectoral problems.
- Members discussed whether Estate Condition might be a useful presentation but agreed that the condition and utilisation

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information in the Accommodation Strategy provided appropriate coverage.

The Audit Committee **AGREED TO ADVISE** the Corporation that Members had **DISCUSSED** the Further Education Risk Register Analysis - Managing risks effectively, efficiently and proportionally – 2019 analysis Report from RSM and had **AGREED** appropriate action in response. **CC**

17.9 Subcontracting

i) Partner Audit & Assurance Visits

The Assurance and Compliance Manager reported on audit and compliance activity carried out during the year on subcontractors, resulting in no areas of major concern and minor compliance issues that were being monitored. External assurance included an Education and Skills Funding Agency desktop review of European Social Fund match funded activity (Members noted the uncertainty Brexit caused to this funding) and RSM's Internal Audit. Compliance audits had been carried out at 14 of the 19 partners with 11 being satisfactory and 3 ongoing. In addition Quality visits had been made to 18 partners with recommendations and monitoring, quarterly reviews took place of all partners including in learning checks and there were learner and employer surveys and learning walks.

ii) In answer to Governor questions, the Assurance and Compliance Manager confirmed that student views were captured through Learner Voice surveys which were sent to all Apprentices and learners. The Director, Funding, Data and External Contracts confirmed that the volume was broadly as expected with regular reviews ensuring partners continued to meet College values and quality standards. Governors asked how the requirements of Ofsted's new framework would be addressed, noting that some learners were apparently unaware that they were on a programme in RSM's Risk Report. The Director, Funding, Data and External Contracts felt this might be a terminology issue with Apprentices more readily identifying that they had a job and were on a course than enrolled in a learning programme.

iii) The Audit Committee **CONSIDERED** the overview of audit and assurance activity conducted with external partners contracted through the College's Three Counties Consortium.

17.10 Internal Audit Reports

i) Progress Report

Louise Tweedie, Director, RSM Risk Assurance Services LLP, presented the internal audit reports, with the first summarising progress to date. The RAG ratings were all positive, being green with one amber/green. The report included "Further Education Emerging Issues Spring 2019" and attention was drawn to the T-Level information and the National Audit Office Report on the Value for Money offered by Apprenticeships. In 2017/18 only 9% of the levy had been utilised, probably due to complexity. The average cost was double the Government expectation, there were fears of overspending the budget and some end point assessments were not available. There was concern that, like Train to Gain in the past, the Government scheme was being used to fund training that employers

would have provided anyway. A Governor asked what support was offered to employers by the College and the Director, Funding, Data and External Contracts reported that at the Solutions team worked closely with employers offering a range of assistance.

ii) Learner Number Systems: Compliance Testing

The Director, RSM Risk Assurance Services LLP reported that this was an advisory review and therefore did not provide an assurance level. There were 6 low, 4 medium and 1 high priority agreed management actions in total, spread across post 1 May 2017 Apprenticeships, 16-19 year old funded learners and High Needs learners. More detail was provided about the high priority action which was in the Apprenticeships area relating to several aspects of planned off the job activities which created potential funding exposure. A Governor asked what the College's exposure was in terms of these issues and the Director, Funding, Data and External Contracts said that it was not massive and that the College had agreed to tighten recording and planning of the off the job elements. Louise Tweedie stated that all the exceptions noted were consistent with those found in other Colleges.

Governors challenged the Director, RSM Risk Assurance Services LLP, asking:

- Why this report had no RAG rated statement of assurance. Louise Tweedie explained that RSM's Head of FE and Skills had set a policy to not give opinions on Learner Number Audits but to report in terms of breaches of the rules. This was because the area was extremely technical and complex.
- Why the reporting dates indicated that it took a long time to get beyond the first draft of a report. The Director, RSM Risk Assurance Services LLP and the Vice Principal and Deputy Chief Executive Officer stated that this could be a protracted process and in this case had not been helped by a change to Government funding rules for off the job training after the audit.

The Principal commented that the College had a good track record with little funding clawback and the Assurance and Compliance Manager stated that there were no major surprises in the report and that monitoring was in place for those concerns. The Staff Governor commented that it was very difficult to get the County Council to update Education Health and Care Plans (EHCPs) in a timely manner, which meant that the College could be criticised for not addressing targets in EHCPs even when these targets were out of date and therefore no longer appropriate.

iii) Follow up

The Director, RSM Risk Assurance Services LLP reported that Good progress was being made in following up previous management actions. This was the best outcome statement available. 18 of 21 actions had been completed in full, 2 were in progress and 1 had been superseded.

iv) Student Support Arrangements

The Director, RSM Risk Assurance Services LLP reported that there were no agreed management actions, which was incredibly rare. The Internal Audit Opinion was that the area provided Substantial Assurance (green) to the College. The Safeguarding Governor felt

that her role was more extensive than the report conveyed.

v) Higher Education Framework

The Director, RSM Risk Assurance Services LLP reported that there were 4 medium and 1 low priority agreed management actions. The Internal Audit Opinion was that the area provided Reasonable Assurance (amber/green) to the College. Further details were provided of the medium priority actions which related to compliance with Competition and Markets Authority and Student Loans Company requirements.

vi) The Audit Committee **NOTED the Internal Audit Progress Report and **AGREED TO ADVISE** the Corporation that:**

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- The Learner Number Systems: Compliance Testing Report was an advisory review so had no overall assurance level, with 6 low, 4 medium and 1 high priority agreed management actions
- The Follow Up Report showed that Good Progress was being made to implement agreed actions
- The Student Support Arrangements Report provided Substantial Assurance with no agreed management actions, which was rare.
- The Higher Education Framework Report provided Reasonable Assurance with 4 medium and 1 low priority agreed management actions.

The Director, Funding, Data and External Contracts and the Assurance and Compliance Manager left the meeting at this point

17.11 Internal Audit Strategy and Annual Plan

i) Louise Tweedie, Director, RSM Risk Assurance Services LLP presented the Internal Audit Strategy which was in a new format. The 43 day plan had been drawn up with reference to the College Risk Register, RSM's Risk Report, emerging risks and regulatory requirements and the date of last audit of core business processes and had been discussed with key members of management. Audits would cover: Learner Number systems; Adult Education Budget; Framework for Efficiency (curriculum plan implementation); Quality Assurance systems; Student Support arrangements; Employability and Careers Strategy; Key Financial Controls; Management Information Framework and Follow Up. The Internal Audit Strategy 2019-20n – 2021/22 also included the 2016/17 – 2018/19 report data to provide a wider context.

ii) The Clerk to the Corporation had questioned the proposed increase in the fee from the £415 per day agreed on 27 March 2018 and the Director, RSM Risk Assurance Services LLP confirmed that this was an error and the fee would be held at £415 a day until 2021 as agreed. The plan would be revised for the Corporation meeting.

iii) The Audit Committee **CONSIDERED** the scope and objectives in the Internal Audit Strategy for 2019/20- 2021/22 and Plan for 2019/20 and **AGREED TO RECOMMEND** them to the Corporation for approval at the meeting on 16 July 2019.

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17.12 2018/19 Financial Statements Audit

i) Katie Scott, Manager, KPMG apologised that some text was missing

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from the Audit Plan and Strategy Document in the papers. Donna Gibson had kindly emailed and placed on the Governor Portal a revised complete copy which Members and attendees accessed at this point. The Audit Manager summarised the Significant Risks (Revenue Recognition, Management override of controls and Pension valuation) and other areas of audit focus (Overall financial position and going concern, Estates valuation, Partner expenditure and accruals and Regularity). Materiality was set at £500k with a reporting threshold at £25k and changes to Financial Statements being required at £375k. The interim audit would take place in July and the final in October 2019. The key risks and controls were similar to those in the previous year. The Senior Manager and Manager would provide continuity with a new Audit In Charge.

- ii) The Audit Manager explained that there was a proposed increase in the fee of £1.5 – 2k because the disclosure changes to bring the Further Education sector more into line with the Higher Education sector would create more audit work. The Chair was surprised at this. KPMG had proposed a fixed fee upon appointment and the work in disclosure of salaries for higher paid staff would sit with the Finance Team. The Audit Manager explained that the key issue experienced in Higher Education had been the need to identify the median staff member in terms of full time equivalent salary for current and prior years which was a large exercise for management which auditors would have to check. A Governor/ Vice Principal and Deputy Chief Executive Officer asked why this was necessary and the Audit manager said this was to ensure transparency but agreed that the median calculation did not add value and that text had to be added to the calculation and that consistency had to be ensured. The Clerk to the Corporation clarified that the disclosure was not a result of the adoption of the Remuneration Code but that this was compliant with the new requirements set out in the Education and Skills Funding Agency's Accounts Direction. The Vice Principal and Deputy Chief Executive Officer pointed out that the Finance Team would have to deliver this additional information (which was complicated as many members of the College workforce either had fractional appointments or multiple roles, both of which added to the work required to perform the calculations) with less staff and resources. The Director of Finance stated that from review it appeared that not all universities had provided prior year information and asked if KPMG would give a qualified opinion on the Financial Statements without it. The Audit Manager said that they would probably not, but that the guidance had been unclear and had necessitated significantly more input from the Director of Finance and Finance Team and had also involved lots of toing and froing for the Auditors at Universities. There was considerable discussion over the point, purpose and value added of the additional disclosure compliance, given the internal costs involved to the public purse.
- iii) The Clerk to the Corporation advised Members to separate the issue of the perceived value of the information compared with the input required from the issue of the Audit Fee uplift requested. KPMG had agreed a fixed fee for three years and the Clerk to the Corporation asked the Audit manager why this would not be held given that Further Education was a sector in constant change. The Audit Manager stated that this was a change in scope and so would require

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additional fees and that a breakdown could be provided of the additional input hours. The Vice Principal and Deputy Chief Executive Officer would raise both issues at the Finance Directors Group, attended by the Association of Colleges' Julian Gravatt and would report back to the Corporation meeting on other audit firms' approach from the members of that group.

iv) The Audit Committee:

- **CONSIDERED** the scope and objectives of the work of the external auditor
- **REQUESTED** that KPMG and management agreed an approach which met KPMG's requirements at minimum cost in terms of staff input
- **AGREED TO RECOMMEND** the Audit plan and strategy for the year ending 31 July 2019 to the Corporation for approval
- **AGREED** that the agreed fixed fee should not be reviewed until feedback had been provided by the Vice Principal and Deputy Chief Executive Officer to the Corporation on 16 July 2019

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VPDCEO**

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17.13 College accounts direction 2018 to 2019 - Financial reporting requirements for sixth-form and further education colleges

i) The Clerk to the Corporation explained that the College accounts direction was issued each year by the funding body and was used by the Finance Director in putting together the Accounts. It was being shared with the Audit Committee as it stated: "This accounts direction is primarily for use by ...governors as charity trustees". Information about the changes in and impact of the new College Accounts direction had also been included in the Financial Statements Audit Plan and in the Internal Audit Progress Report. Many of the changes affect the disclosure of executive and Senior Post Holder pay as already discussed, the latter linked to the Colleges Senior Post Holder Remuneration Code adopted by the Corporation on 11 June 2019 as recommended by the Remuneration Committee.

ii) The Audit Committee **RECEIVED** the College accounts direction 2018 to 2019, for use by "governors as charity trustees" and agreed that it should not be included in the papers for the July Corporation meeting.

17.14 Department for Education (DfE) Governance Guide - Follow Up UK Corporate Governance Code

i) The Clerk to the Corporation explained that as the College had not adopted one of the three possible codes, the relevant statement in the Annual Report was "We have not adopted and therefore do not apply the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the further education sector and best practice." The Governance and Search Committee had agreed that the Clerk to the Corporation should map compliance against the UK Corporate Governance Code and on 22 May 2019 had considered the extent of College compliance with the UK Corporate Governance Code, recommended some changes to current practice and to some explanations, noting that the revised schedule would also be considered by the Audit Committee.

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ii) The papers included the Clerk to the Corporation's draft assessment of Compliance with the UKCGC provisions, as amended to reflect Governance and Search Committee comments and colour coded for ease of review with the full code being available in the supporting papers. There was much compliance and several areas assessed as not relevant to the College, as it is not a company and some remaining areas of non or partial compliance where this was justified or action was agreed. There were some sections of the compliance assessment that remained to be judged against the Annual Report and Financial Statements which would be considered with the draft documents.

iii) The Audit Committee:

- **CONSIDERED** the extent of College compliance with the UK Corporate Governance Code
- **WERE SATISFIED** with the judgements made
- **NOTED** that compliance with the Annual Report and Financial Statements reporting elements would be reported to the Audit Committee on 19 November 2019

CC

17.15 Post-16 Audit Code of Practice (PACOP) 2018 to 2019

i) The papers included a summary of the main changes to and contents of the Post-16 Audit Code of Practice with the full version in the Supporting Papers Folder and a tracked changes version available on request. The Clerk to the Corporation reminded Members that the Post-16 Audit Code of Practice was updated annually by the Education and Skills Funding Agency. It had been stylistically revised, with some additional definitions and legislation/guidance references and re other minor changes throughout. Changes to the Audit Committee section would be reflected in the Terms of Reference review in the autumn term. Members noted that "Corporations should be mindful of the new insolvency regime for further education bodies" and welcomed the deletion of last year's added phrase that membership "should not include staff governors" and added footnote that "Corporations should consider whether staff-governor members of an audit committee meets good practice standards of independence and objectivity". The Fraud, regularity and reporting section had been significantly extended, with a list of main components and a new anti-fraud checklist. The Director of Finance had reviewed the checklist and believed that all questions could be answered positively.

ii) The Audit Committee:

- **RECEIVED** the replacement for the Post-16 Audit Code of Practice 2017 to 2018
- **CONSIDERED** its implications
- **NOTED** that it no longer stated that Staff Governors should not be Members
- **NOTED** that compliance with the Fraud, regularity and reporting sections would also be considered in the Whistleblowing, Fraud and Bribery Review, normally in the spring term.

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17.16 Value For Money Policy

i) The Director of Finance reminded members that the policy addressed

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requirements of the Financial Memorandum and Funding Agencies. There was one change to bring the definition of Economy Efficiency and Effectiveness into line with National Audit Office definitions.

- ii) The Audit Committee **REVIEWED** changes to the Value for Money Policy and **AGREED TO RECOMMEND** them to the Corporation for approval **CC**

17.17 Whistleblowing Procedure

- i) The Clerk to the Corporation reported that, although the Audit Committee action was completed, the Whistleblowing Procedure was still in discussion with the Staff Forum with a summary of comments from UCU Union still awaited.
- ii) The Audit Committee **NOTED** that the Whistleblowing Procedure was still in consultation and that further action would be reported through the Corporation.

17.18 CONFIDENTIAL ITEMS

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17.21

These Matters are recorded as Confidential Minutes 1 of 1.

17.22 Any Other Urgent Business

There was no other urgent business.

17.23 Date and Time of Next Meeting

- i) Tuesday 19 November 2019, 5.30pm, The Source, All Saints' Building, Worcester

17.24 Audit Committee Self Assessment

- i) The Clerk to the Corporation reminded Members that the Audit Committee self assessed performance each year and had approved the continued use of the previous checklist, the Audit Committee Effectiveness Aide-Memoire. This was normally issued over the summer but required a lot of chasing so it was being issued at the conclusion of the annual cycle.

- ii) The Audit Committee **AGREED** to complete and return the self-assessment of performance in 2018/19 to the Clerk to the Corporation by 16 July 2019. **Members/CC**

The meeting closed at 7.40pm.

Signed:

Date:

Sue Frost
Clerk to the Corporation
27 June 2019