

AUDIT COMMITTEE

APPROVED DRAFT Minutes of the Meeting held on Wednesday 4 March 2020 at 5.30pm

in The Source, All Saints' Building, Worcester

**Present
Governors:**

Kevin Gaffney	Chair
Steve Bolton	
Lucy Hodgson	
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 Felthouse	Senior Manager, KPMG (External Auditors)
Asam Hussain	Director, RSM Risk Assurance Services LLP (Internal Auditors)
Sue Frost	Clerk to the Corporation

Action

19.1 Apologies

- i) Apologies were received from Louise Tweedie, Partner RSM Risk Assurance Services LLP.

19.2 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 no interests to declare.

19.3 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, Director, RSM Risk Assurance Services LLP joined the meeting at this point

19.4 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 and Director of Finance returned to the meeting at this point.

19.5 Minutes of the Previous Meeting

- i) Minor corrections were highlighted in the papers. The Audit Committee **APPROVED** the revised Minutes of the meeting held on 19 November 2019 as an accurate record for signature by the Chair.

19.6 Matters Arising

- i) 22 actions had been completed or would be addressed during the meeting, one had been superseded and four carried forward.
- ii) The Audit Committee **MONITORED** action taken, and remaining to be taken, in respect of Matters Arising from the Minutes of previous meetings.

19.7 Determination of Any Other Urgent Business

- i) The Chair was aware that emails had been circulated on the Clerks' Network stating that external audit fees were likely to increase significantly and asked whether this was likely for the College. Tony Felthouse, Senior Manager, KPMG stated that, as the College was in the third year of a contract, fee increases would only apply for changes in scope. For 2018/19 this had been the case for work on pay multiples and for 2019/20 would apply to work on the HE Access and Participation plan. It was likely that future tenders would be at higher prices because of the growing compliance burden.

Risk Register and Assurance Framework

19.8 Strategic Risk Register – Spring Term Update

- i) The Vice Principal and Deputy Chief Executive Officer presented the Spring 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. Details were provided of the changes in individual risk scores:
- Not achieving 19+ Classroom based learner targets. Increased from (9) medium to (12) high. Numbers have not reached expected levels despite growth in NEET, ESOL & the IT Skills Centre and this was not expected to improve in Spring or Summer terms.
 - Compensation claims from dissatisfied learners. Reduced from (6) medium to (9) medium (20) high to (12) high. The claim situation had improved and the risk of 'follow on' claims had significantly reduced.
 - Failure to maintain HE provider status. Reduced from (20) high to (15) medium high. Changed Office for Students approach and no ongoing issues. Next monitoring form due late Feb 2020. Positive & strengthened CIPP relationships.
 - GDPR compliance. Reduced from (12) high to (8) medium legislation and approach now embedded, case studies and networks giving better insight of risks and no evidence of breach at the College.
 - Clerk appointment. New risk added following resignation of current Clerk to the Corporation. New recruitment process underway with closing date of 6 March. Some applications received.
- ii) Governors challenged staff, asking:
- What happened when target dates had been missed. The original date was maintained in the plan and the RAG rating and narrative would reflect the current status. Dates would only be revised at the end of the start of the next year's plan.
 - Was any impact expected from recent changes to the Local Enterprise Partnerships? No, if anything the College might have stronger relationships with the Greater Birmingham and Solihull LEP. This would be covered under Risk 6.7, changes to the external environment.

- Was there a need to expand the Risk Register because of the Corona Virus threat? Risk Register 5.6, public health risks covered this. The Government had overreacted to past flu epidemics and staff did not see Corona Virus as different from these. The College was following and would continue to follow Government guidance with regard to shut downs etc. One of the Governors stated that College staff and students were not in the high risk groups. The Staff Governor said that regular hand washing was being stressed with students in the Special Educational Needs area.
- What would the financial impact be of a shutdown? This would be minimal. Students could continue on line learning, some staff could work remotely, and the College had a range of buildings that could be used to house provision.
- What was the impact of Worcestershire flooding and did this need more prominence on the Risk Register? Risk 5.9 was medium as only one building of the College estate was affected and this was infrequent.
- Should climate change be given more prominence on Risk Registers? This was a national issue, not something that Colleges could mitigate. Students were very green and the College had a range of responses in place. The College was under the threshold for carbon footprint reporting. There was an Environmental Policy. Energy usage was monitored and its impact was considered in tenders Eg use of renewables.
- The new risk related to the replacement of the Clerk to the Corporation was important for good governance – how were applications going? There were six applications when the papers were written and more would come in last minute.

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

19.9 Internal Audit Reports

i) Progress Report

Asam Hussain, Director, RSM Risk Assurance Services LLP, presented the internal audit reports, with the first summarising progress to date, reflected in the following reports. The work had been completed on two more reports and two further audits had just commenced, completing the plan. The progress report also included information on Fraud, ISO/ IEC 27001: new requirements for providers, a fraud and bribery awareness recruitment workshop and Bribery Act principles.

The Clerk to the Corporation advised that the normal spring term report on Fraud, Anti-Bribery and Whistleblowing had been delayed due to the work required on the Integrated Financial Management of Colleges model. It would be considered at the next meeting.

CC/DF

ii) Management Information Framework

The Management Information Framework review had tested 15 Key Performance Indicators for data accuracy and integrity. There were three proposed low priority management actions. The Internal Audit Opinion was that the area provided Substantial Assurance (green) to the College. The Chair questioned the delays in receipt of the draft report and the Vice Principal and Deputy Chief Executive Officer said that she had raised that at the time with the Audit Partner.

iii) Framework for Efficiency

The Framework for Efficiency review contained three medium priority management actions. The Internal Audit Opinion was that the area provided Reasonable Assurance (amber) to the College. At the time of the visit the auditors felt that the revised process for monitoring staff utilisation had not been fully embedded as initial reporting to managers had taken place, but the responses had not been received so there were some anomalies with the data. The Director of Finance agreed with this view. Staff

Utilisation monitoring was a work in progress, but when refined would provide useful information in managing the College's greatest cost and resource more effectively and would be included as a Corporation Key Performance Indicator.

The Principal conceded that there was some underutilisation, citing a particular Department with issues. Where student groups had been planned, staffed and had not run, that under utilisation was used in other ways – for example reducing reliance on external paid exam invigilators.

The Vice Principal and Deputy Chief Executive Officer left the meeting at this point.

Governors challenged the Auditors and staff:

- All discussed the sample of fifteen staff, the figures in the report and their implications at some length until Governors understood the report better. The finance system (budgeted staff) and the course directory information did not contain directly comparable information and the finance team would work with the timetabling team to isolate direct student contact hours, which teaching staff utilisation was based on.
- Did underutilisation have any impact on student outcomes? Once the model was corrected it would be possible to triangulate that.

Asam Hussain, Director, RSM Risk Assurance Services LLP summarised the situation, stating that there was now a system and some visibility and directors needed to cleanse the data and justify the results. Many colleges struggled with systems that did not talk to each other. This was a process in progress.

iv) **Further Education - Benchmarking of Internal Audit Findings 2018/19**

The benchmarking report compared the level of assurance, management action points and audit opinions against 2016/17, 2017/18 and 2018/19 for the College and against the FE client base in 2018/19. The College had three green and one amber assurance levels in 2018/19 compared with two green and two amber assurance levels in 2017/18 and five green assurance levels in 2016/17. It was positive that there were no amber/red or red assurances.

There was one high priority management action in 2018/19 compared with two high priority management actions in 2017/18 but the overall number was lower than in 2017/18 and lower than sector average. The Audit Opinion was that reached at 82% of Colleges with 10% having significant weaknesses, again largely in relation to apprenticeships and the many in year rule changes.

The Clerk to the Corporation had identified an issue with the relationship between the number of reports cited and the averaging of management action points across reports. Asam Hussain, Director, RSM Risk Assurance Services LLP stated that a corrected copy had been sent by email and that the management action points were averaged across all reports, including advisory reports (not included in the report total on the previous page). He stated that the College fared well against the benchmarks despite using Internal Audit as a tool to improve developing areas and those which were less strong. Management actions were therefore expected.

CC

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

- The Management Information Framework provided Substantial Assurance (green) with three low priority management actions
- The Framework for Efficiency review provided Reasonable Assurance (amber) with three medium priority management actions.

CC

Action

19.10 Bournville College Investigation

- i) The Audit Committee had considered Clerk to the Corporation's analysis of the recommendations in the Chief Executive of the Education and Skills Funding Agency's letter and the investigation into practices at Bournville College between 2011 and 2015 and how the College met these recommendations through existing good practice, and possible areas of improvement, at the meeting on 19 November 2019. Members had agreed that the actions identified should be taken forward.
- ii) Members reviewed the action plan. Of the seven actions, one had been delivered (green), five had been assigned with a leader and date (blue) and the Audit Committee was asked to clarify one. Members agreed that, although authorisation had been compliant with the Financial Procedures, the Principal's expenses should continue to be authorised by the Vice Principal and Deputy Chief Executive Officer in order not to delay claims/processes within the Finance Team but also be reviewed retrospectively by the Corporation Chair. A date was still needed for a post project completion report as work was still in progress. This could be provided by the Vice Principal Vocational and Technical Education who sent periodic returns to the Local Enterprise Partnership, monitoring desired outcomes and timely use of resources. The report would be monitored on a termly basis until completion.
- iii) The Audit Committee **APPROVED** the action plan in response to the Bournville College Investigation and **MONITORED** progress against it.

VPVTE/CC

CC

19.11 FE Commissioner Annual Report

- i) The Clerk to the Corporation explained that the Annual Report provided some context for the work of the Further Education Commissioner and his team. It included information about formal intervention, diagnostic assessments, structural reviews and quality improvement through National Leaders of Further Education and National Leaders of Governance. Members noted the increased optimism for the sector in the covering letter.
- ii) The Audit Committee **RECEIVED** the Annual Report of the Further Education Commissioner 1 August 2018 to 31 July 2019 and **AGREED** that the Corporation should be signposted to it.

CC

19.12 FE Commissioner Investigation Reports

- i) The papers included the extracted "Role, Composition and Operation of the Board" sections from Further Education Commissioner Intervention Reports on Colleges published between March 2019 and January 2020 and a grid showing the frequency of occurrence of the key findings from the extracts. The issues were summarised under key headings, together with the Clerk to the Corporation's assessment, RAG rated as: "Could be said of the College", "Could possibly be said of the College or an issue to watch" and "Could not be said of the College".
- ii) The Clerk to the Corporation talked Members through the five red areas:
- Lack of Board diversity – BME and gender. The Corporation had identified this as an issue and it was on the Governance Improvement Plan. The Governance and Search Committee had advertised widely for Governors using the College HR system and social media. The eight applicants had been shortlisted by the Committee using a scoresheet against redacted forms with no personal or diversity information (as recommended by the HR Department) and five were expected to be interviewed. It remained to be seen whether the outcome would improve diversity as it was skills based, not attribute based.
 - Accountants but no finance committee. The Cycle of Business Task and Finish Group had reviewed governance structures and considered committee systems

(including adding a finance committee) but had concluded that such a wholesale change was not appropriate at present.

- Carver/ limited committee model to be replaced with committees – The Cycle of Business Task and Finish Group review had concluded that this system should be retained at present, with some extension and changes of focus.
- Board Agendas are too long/ insufficiently focused on key risks/ too focused on finance/ too crammed to add value in time available. The Cycle of Business Task and Finish Group review concluded that limited additional meetings would spread business more widely. The next meeting would review the Statement of Governance Principles and Scheme of Delegation to ascertain whether business could be removed from the Corporation sphere and look at paper formats.
- Not good practice for the Principal to be involved in recruiting and interviewing Governors. The Clerk to the Corporation reported that 30 of 38 colleagues who responded to her Clerks' Network query had the Principal as a Member of the Search Committee.

iii) The Principal felt that the FE Commissioner team sometimes responded disproportionately to issues in individual colleges. It was not always appropriate to apply these principles to all. Chairs, Vice Chairs and Principals were replaced in some colleges as a result of the FE Commissioner findings, but Principals were often awarded significant compensation when this was challenged. The Corporation Vice Chair thanked the Clerk to the Corporation for analysing the reports.

iv) The amber comments "Could possibly be said of the College or an issue to watch" would be reviewed on 30 June 2020. **CC**

v) The Audit Committee **REVIEWED** the "Role, Composition and Operation of the Board" Sections in recent Intervention Reports, **CONSIDERED** whether action was required to improve effective governance and **NOTED** the actions being taken against the comments which could be said to apply to the College.

19.13 The Revised Insolvency Regulations

i) The papers included a summary of additions to the previous guidance and the section on "Mitigating risk for governors". The full "Further education bodies: insolvency guidance" January 2020, with the additions highlighted, was provided as a separate supporting paper for reference.

ii) A Governor asked the Auditors if a College could be fund liable in the event of Governors approving a deficit budget and something unexpected happening like a loan being called in, rendering the College insolvent. Tony Felthouse said that the steps leading up to that point would have to be considered. It would be wrong to set a deficit budget that knowingly breached loan covenant terms, such a possibility would have to be mitigated in discussion with the bank. The Director of Finance reassured Members that although a deficit budget had been approved the College was gearing up to grow and that a degree of certainty was afforded by the knowledge of the 16 – 18 year old budget.

ii) The Audit Committee **CONSIDERED** the implications of the Department for Education's revised "Further education bodies: insolvency guidance" January 2020.

19.14 The Effective Board

i) The Audit Committee **CONSIDERED**: The role of the Audit Committee (part 2): assessing external audit effectiveness.

The auditors left the meeting at this point.

CONFIDENTIAL ITEMS

Items 19.15 – 19.17 are recorded as Confidential Minutes 1 of 1.

19.18 Any Other Urgent Business

- i) There was no other urgent business.

19.19 Date and Time of Next Meeting

- i) Tuesday 30 June 2020, 5.30pm, The Source, All Saints Building, Worcester

The meeting closed at 6.45pm.

Signed:

Date:

Sue Frost
Clerk to the Corporation
5 March 2020

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