# AUDIT COMMITTEE

21st June 2016

# M I N U T E S

Present: Mrs J Lancaster

 Dr C Thomas

 Mr A Spires (Chair)

In attendance: Mrs E Baxter (Director of Finance & Funding)

 Mr M Bishop (Grant Thornton)

 Mr D Canham (Mazars)

Mr N Duncan (Principal)

 Mrs J Eayrs (Clerk)

 Mr R Nicholls (Grant Thornton)

**16/16 Private pre-meeting with Internal Audit Service Provider**

Members of the Audit Committee met privately with the Internal Audit Service Provider without the Executive Management being present. Mr Canham, Mazars, confirmed that all had gone well with the audit, all staff had engaged with the process and all the necessary information had been provided. He acknowledged that, due to some changes in key personnel on both sides, there had been the odd ‘teething problem’ but the transition from Mrs Robinson, Head of Finance to Mrs Baxter, Director of Finance and Funding appeared to have gone well.

The External Audit Service provider confirmed that, from their perspective, there were also no issues of concern.

*Executive officers joined the meeting at this point and the Chair provided a summary of the discussions which had taken place.*

**17/16 Presentation on Apprenticeship Funding**

Members of the Committee received a presentation on Apprenticeship Funding and the changes due to come into effect in April 2017. The Principal outlined the purpose for the introduction of the Grant and Levy, how the funding system would work and how a register of training organisations (ROTO) was being established. He went on to say that, although there were risks attached to subcontracting the new regime also presented opportunities. He outlined a number of changes which had been made to the operational infrastructure to enable the College to best placed to embrace the apprenticeship challenge.

*Mrs Lancaster arrived at this stage (6.05pm)*

**18/16 Declaration of Interests**

 Members were reminded of the need to declare any personal or financial interest in any item of business to be considered at the meeting. No interests were declared.

**19/16 Apologies for absence**

 Apologies for absence were received and accepted from Mr Rudd and Mr Wilkins. Members noted that Mrs Lancaster was expected but would be arriving late due to a student matter.

**20/16 Minutes of the meeting held on the 16th March 2016**

 The minutes of the meeting held on the 16th March 2016 were agreed as a true and accurate record and were signed by the Chair.

**21/16 Matters arising from the minutes of the meeting held on the 16th March 2016**

(i) Minute 04/16: Area Based Review (ABR) – The Principal provided members with an update on the ABR process and the progress to date. He advised members that the process had now concluded with the final meeting having taken place on the 9th June 2016. He confirmed that the recommendation arising from the process for the College had been to explore collaborative models with Eastleigh College. The process had also confirmed that the College was financially in control and could, in theory, remain a standalone organisation if it chose to. The Principal went on to say that a Joint Steering Group had been established which had met on the 16th May 2016 and was due to meet again on the 28th June 2016. He concluded by saying that, although there were one or two contentious issues, overall, there was significant synergy between the two organisations which was worth exploring further.

**22/16 Correspondence**

 There was no correspondence.

**23/16 Risk Management Policy and Termly Update on Risk Management – June 2016**

Members of the Committee received the College Risk Register (including Health and Safety risks) which provided an update of the College’s current risk exposure, provided assurance that risks had been evaluated and which outlined the mitigation that had been put in place to reduce the risks identified. In addition, members had been provided with the updated Risk Management Policy for review.

The Principal spoke to the paper and advised members that a robust discussion had taken place at the last TSC&Q Committee meeting regarding the number of ‘high’ and ‘very high’ risks on the register and the scoring. At that meeting concern had been expressed that, after relevant mitigation, there were still a large number of high and very high risks which could either be interpreted as meaning that the College was in an extremely precarious position or that the mitigation being put in place was not effective. As a result of those discussions the Principal had reviewed the scoring of the risks and he referred members to the summary chart provided. Members noted that, under the revised scoring system, there was now only 1 very high risk and 4 high risks. The Principal drew the key risk themes to the Committee’s attention as follows:

* **Apprenticeship Recruitment** – The Principal confirmed that the late receipt of the apprenticeship growth funds had made recruitment and the achievement of the target (1000 apprentices) difficult;
* **Lack of in-house IT capability and capacity** – The Principal advised members that a review of the IT Services structure was currently being undertaken and that any transition period would need to be carefully managed;
* **HCC Pension De-grouping** – The Principal advised members that the financial exposure could be up to £200k. He reminded members that auto-enrolment to the Pension scheme was due in January 2017;
* **Delays in the completion of the demolition for the south side of the campus leading to a breach of contract with the developer** – The Principal confirmed that the bell mouth had now been completed and as far as he was concerned the College had fulfilled all its commitments in this regard. He stated that he expected the final payment from Bloor Homes to be made in July without any delay.

The Principal referred members to the Risk Management Policy which had been updated. He advised the Committee that there had been no significant changes to the Policy but a number of cosmetic changes had been made.

**Members of the Committee reviewed and noted the contents of the paper and the mitigation in place to reduce the risks identified and endorsed the updated Risk Management Policy.**

**24/16 Internal Audit Report – Core Financial Systems: Debt and Cash Management (06.15/16)**

Members of the Committee received the Internal Audit Report for Debt and Cash Management. Mr Canham spoke to the report and explained that the audit had included a review of the key controls and processes with respect to the College’s Debt and Cash Management.

He referred members to the Introduction and Background on page 1 of the report and highlighted the following key points:

* Adequate assurance on the effectiveness of the internal controls had been provided;
* 2 ‘significant’ recommendations had been made related to:
- The need to review the Financial Procedures and to include the arrangements for debt recovery;
- The need to send out reminder letters to debtors in a timely manner (at 30 days);
* 1 ‘housekeeping’ recommendation had been made related to:
- The need to document training provided to staff in the handling of cash and that staff should sign to indicate that they had received training.

The Chair queried whether there was a lot of cash on site. Mrs Baxter confirmed that a significant amount of time was spent counting cash by the Finance Team. As a result, a proposal to implement further the ‘wisepay’ system was being explored and a paper was due to be presented to SMT at the end of June 2016.

Members of the Committee reviewed each of the recommendations which had been made and noted the management responses, the deadlines and the actions in train to address the issues raised by the internal audit report.

**Members of the Committee reviewed and noted the contents of the Internal Audit Report: Debt and Cash Management, the recommendations which had been made and the management responses to address the issues identified by the audit visit.**

**25/16 Internal Audit Report: Learner Number Systems (05/ 15/16)**

Members of the Committee received the Internal Audit Report for Learner Number Systems (05.15/16). Mr Canham spoke to the report and explained that the audit had included a review of the key controls and processes to ensure the accuracy and integrity of the College’s learner number data.

He referred members to the Introduction and Background on page 1 of the report and highlighted the following key points:

* Adequate assurance on the effectiveness of the internal controls had been provided;
* 1 ‘significant’ recommendation had been made related to:
- The need to check all PDSAT reports for data inaccuracies;
* 2 ‘housekeeping’ recommendation had been made related to:
- Apprenticeship enrolment forms;
- Student change forms to be authorised by the Director of Curriculum.

Members reviewed the actions which related to outstanding follow-up recommendations from the previous Learner Numbers audit which had taken place in 2014/2015 which related to:

* **Register reconciliation of start dates** – Members noted that this recommendation had not been implemented due to a staff change in August 2015;
* **Learner Agreements** **to be issued prior to funding reference point** – The management response had confirmed that all learning agreements had been in place by December and, going forward, every effort would be made to issue learner agreements prior to the RO4 funding reference point.

There was a query about the College dashboard data and how often it would be brought up-to-date. The Principal explained that there were two types of data. Some of the information was ‘live’ and would updated continually (ILR data) during the academic year and the other was internal data (related to H&S and HR etc.). He continued by saying that there should be date each month whereby all the data was up-to-date.

Members of the Committee reviewed each of the recommendations which had been made and noted the management responses, the deadlines and the actions in train to address the issues raised by the internal audit report.

**Members of the Committee reviewed and noted the contents of the Internal Audit Report: Learner Number Systems, the recommendations which had been made and the management responses to address the issues identified by the audit visit.**

**26/16 Internal Audit Strategy and Operational Audit Plan 2016/2017 (Draft for Discussion)**

Members of the Committee received a draft copy of the Internal Audit Strategy and Operational Audit Plan for 2016/2017 for discussion and review. Mr Canham, Mazars, spoke to the report and drew members’ attention to page one of the report which provided background information and outlined the scope and purpose of internal audit.

The Strategic Audit Plan was attached as Appendix A1 to the report and had been compiled based on risk area identified in the high level risk register. Members noted that the original Strategy had included a review of Corporate Governance in 2016/2017 but, following discussions at the March Audit Committee meeting and the request that work be done on the Learner journey, the Corporate Governance Review had been deferred to allow this work to take place.

The Operational Plan for 2016/2017 was outlined in Appendix A2 and proposed 26 days audit for 2016/2017 and which covered the following areas:

* HR – 4 days;
* Learner Number Systems – 6 days;
* Learner Journey – 4 days;
* Core Financial Systsms – 5 days;
* Follow-up – 3 days;
* Audit Management – 4 days.

 There was a discussion about the proposed audit plan for 2016/2017 and the Chair requested a session of Risk Management training which outlined the key principles of risk management that the College should be thinking about as part of the ‘Audit Management’ 4 days.

 **Members of the Committee reviewed and provided feedback on the scope of business areas and the proposed number of contracted days for inclusion in the Strategic Audit Plan due to be presented at the Autumn term meeting.**

**27/16 Grant Thornton – Audit Plan for the year ending 31 July 2016**

 Members of the Committee received the Grant Thornton Audit Plan for the year ending 31 July 2016. Mr Bishop, Engagement Leader GT, stated that the audit plan was not significantly different to the previous year and he drew members’ attention to GT’s understanding of the principal business issues related to the College as follows:

 **Financial Position:**

* The College was on target to deliver a surplus in the current year and financial forecast results were noted as being slightly behind budget figures;
* Total income was expected to be £375k behind budget mainly due to lower than expected SFA funding for 16-18 year old apprentices. Members noted that this had been off-set by significant savings compared to budget for subcontractor costs, other operating costs and depreciation charge;
* The projected cash position at the year-end was £1.9m.

**Bishopsfield Road Campus (BRC):**

* The BRC had opened in September 2015 as planned;
* The majority of the assets under construction at 31st July 2015 had been transferred to fixed assets;
* As at 30th April 2016 there was a remaining balance of £1.3m in assets in the course of constructions;
* The release of the deferred capital grants and depreciation charge for the buildings commenced from September 2015;
* The demolition of the buildings on the old site and planned handover of vacant land to Bloor Homes would be completed by 31st July 2016 as planned;
* The total debtor of £8.6m would be received in instalments with £1m and £3m received in April and May respectively and the final payment of £4.6m due to be paid in July 2016.

**Bank Covenants:**

* The debt service covenant had been breached in April 2016 due to lower than expected surpluses and the repayment of the LEP loan of £575k;
* The issue had been discussed with Santander and they had confirmed that they only tested the loan covenant once a year based on Statutory Accounts;
* The College had informed Santander of a potential breach of the covenant at year-end 2015/2016 which has been approved by the bank. It was recommended that management obtained a written confirmation of the waiver from the bank prior to the year-end. Mrs Baxter confirmed that a letter confirming the covenant issue had now been received.

**Audit focused on risks:**

* Mr Bishop advised the Committee that the same risk areas were reviewed each year. He highlighted the risk of FRS102 as it was applicable this year. He added that, it had been identified as ‘high’ risk due to the fact it was a change in the accounting framework but, overall, it was not seen as a problem. Mrs Baxter advised the Committee that the effect of FRS102 on the College accounts would be quite small.

There was a brief discussion about the change in attitude of banks towards the education sector due to the removal of the Government guarantee and the increased liability.

**Members of the Audit Committee reviewed and noted the contents of the Audit Plan for the year ending 31 July 2016.**

**28/16 Annual Review of Whistle Blowing Policy and Bribery Policy**

 Members of the Committee received a paper on the Annual Review of Whistle Blowing Policy and Bribery Policy. Members were reminded that both policies were enshrined within the College’s Financial Regulations and, as a result, were reviewed by the Director of Finance and Funding annually as part of that review process. Members noted that a thorough review of the Financial Regulations had been completed in the Autumn term 2014 and the updated document had been formally approved by the Board at its meeting on the 10th December 2014. In addition, members were advised that a further review of these two policies had been completed in February 2016.

 **Members of the Committee reviewed and noted the contents of the paper.**

**29/16 Review of the Operation of the Audit Committee**

 The Committee received a paper on the Operation of the Audit Committee for members’ consideration. Members had previously agreed to review these arrangements on an annual basis and had acknowledged that it was seen as ‘good practice’ to meet privately with the External Auditors when considering the Statutory Accounts at the autumn term meeting each year. In addition, the Committee had previously agreed to reserve the right to meet privately with the Internal Auditors at the spring and summer term meetings if required.

 **Members considered the contents of the paper and agreed to continue with the existing operating arrangements for the Committee as outlined above.**

**30/16 Review of Internal Audit Recommendations**

 Members of the Committee received the Internal Audit recommendations as part of the ‘tracking’ system which had been established to monitor progress.

 Mrs Baxter, Director of Finance and Funding, spoke to the paper and reminded members that there were a significant number of recommendations currently being tracked due to the review of the Business Continuity Plan. She reminded members that, once the recommendation had been implemented it would come off the tracking document.

 Clarification was sought on the inclusion of the subcontracting recommendations and Mrs Baxter agreed to explore this. In addition, it was agreed to add the rating of the recommendation.

 **Members of the Committee reviewed and noted the contents of the paper.**

**31/16 Annual Review of Performance for Committees of the Corporation 2015/2016**

 Members of the Committee received a paper on Annual Review of Performance for Committees of the Corporation. Members were reminded that formal annual targets for committees of the Corporation had been established in 2006. Members reviewed the performance indicators and evidence sources outlined in the paper and considered the performance of the Audit Committee during the 2015/2016 year.

 In addition, members had developed a specific Audit Committee self-assessment and evaluation checklist which had been adapted and which was due to be reviewed under agenda item 10(v).

 **Governors reviewed the performance indicators and considered the work undertaken by the Committee during the 2015/2016 year. Members reviewed the evidence sources and concluded that the work of the Audit Committee had added value to the work of the full Corporation.**

**32/16 Audit Committee Evaluation Checklist 2015/2016**

 Members of the Committee were reminded that the establishment of an audit specific self-assessment questionnaire had previously been endorsed to be completed as part of the annual review and evaluation process.

The Clerk to the Corporation had completed the questionnaire and the outcomes of the review were provided in Appendix A of the paper for the Committee to review. Members noted that no significant issues of concern had been raised as part of the review.

**Members of the Committee reviewed and noted the outcomes of the specific Audit Committee self-assessment for 2015/2016.**

**33/16 Annual Review of Audit Committee Terms of Reference and Annual Cycle of Business**

 Members of the Committee undertook an annual review of the Committee Terms of Reference and Annual Cycle of Business. The Committee considered and agreed that it had complied with the terms of reference during the 2015/2016 academic year and no changes to the Terms of Reference were proposed. An annual review of the Business Continuity Plan was added to the Annual Cycle of Business (spring term).

 **Members of the Committee agreed to recommend the updated Annual Cycle of Business for formal approval by the full Corporation at its meeting on the 29th June 2016.**

**34/16 Review of Performance of the Internal Audit Provider 2015/2016**

Members of the Committee received the 2015/2016 Performance Assessment for the Internal Audit Service Provider. In addition, members were asked to consider and agree performance indicators for the 2015/2016 year.

 Overall, no significant issues of concern were raised. However, a number of key performance indicators related to the timing for the publication of draft internal audit reports, the time for management responses and the publication of finalised documents to be provided for committee meetings were established.

 **Governors reviewed the performance assessment of the Internal Audit Service Provider and noted the issues which had been raised. Members of the Committee agreed to the continued use of the performance questionnaires and the performance indicators for 2016/2017.**

**35/16 Contract for Internal Audit Services 2016/2017**

 Members of the Committee received a paper on the Contract for Internal Audit Services. Following consideration of the performance of the Internal Audit Service Provider for 2015/2016 at the previous agenda item, members of the Audit Committee agreed to recommend the re-appointment of Mazars for a further year to run from 1st August 2016 to 31st July 2017.

 **Members of the Audit Committee formally agreed to recommend the re-appointment of Mazars as the Internal Audit Service Provider to the full Corporation for approval at its meeting on the 29th June 2016 for a further year to run from 1st August 2016 to 31st July 2017.**

**36/16 Dates of meetings in the 2016/2017 Academic year**

 The following dates for the 2016/2017 academic year were agreed with all meetings to start at 5.30 pm:

* 21st November 2016;
* 22nd March 2017;
* 14th June 2017.

**Post minute note:** At the request of the Internal Audit Service Provider the dates of the Spring and Summer Term meetings were changed to the 21st March 2017 and 13th June 2017 respectively.