# AUDIT COMMITTEE

13th June 2018

# M I N U T E S

Present: Mr T Rudd

Mr A Spires (Chair)

Dr C Thomas

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

Mr D Canham (Mazars)

Mrs J Currin (Interim FD)

Mr N Duncan (Principal)

Ms J Eayrs (Clerk)

Mr M Lewis (newly appointed FD due to take up post Aug 18)

Mr N McQueen (Head of Technical Services) (item 8(v) only)

**13/18 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.

**14/18 Annual Election of Chair**

Mr Adam Spires was elected as Chair to serve until the first meeting after the 1st April 2019 in accordance with the Corporation’s Standing Orders.

**15/18 Apologies for absence**

Apologies for absence were received and accepted from Ms Allen.

**16/18 Minutes of the meeting held on the 14th March 2018**

The minutes of the meeting held on the 14th March 2018 were agreed as a true and accurate record and were signed by the Chair. There were no matters arising from them.

**17/18 Termly Update on Risk Management – June 2018**

Members of the Committee received the full College Risk Register. The Principal provided a verbal briefing for Governors and outlined the College’s current risk exposure and provided assurance that the risks had been evaluated and mitigation actions agreed. In particular, he drew the following to members’ attention:

* There had been a meeting of the Risk Management Group two weeks’ previously;
* There were 43 risks on the Register in total with a current overall residual risk of 6.23;
* **Risk 3: Poor FT and PT recruitment leads to decline in funding** – The Principal explained that this correlated with the decline in year 11’s which were 3% lower than the previous year;
* **Risk 4: Affordability of competitive rates of pay causes issues relating to recruitment** – Members noted that exit interview data had indicated that 42% of staff leaving the College were leaving the FE sector with key issues being pay and lack of security;
* **Risk 6**: **Full Study Programme underdeveloped leading to elements not being completely delivered** – Attendance at English and Maths was still causing some concern and members were advised that 7 adult learners had not attended for an exam. Action was being taken with HoDs to monitor the position carefully. In addition, members noted that the English and Maths Co-ordinator had secured a promoted post at Eastleigh College and would be leaving at the end of term;
* **Risk 10: Serious IT security failure causing security breach – Cyber Security** – An attempted breach was thwarted by changing all passwords. Internal Audit report had indentified limited confidence in cyber security and a number of recommendations had been made which would be reviewed by the Committee later in the meeting;
* **Risk 11: GDPR – Changes to Data Protection Law increases accountability associated with a breach and risk of severe penalty –** Policies and procedures were currently being developed and further review of what other data was held by the College and how it was managed was required. Members were advised that a summer cleanse of existing analogue data was planned;
* **Risk 21: Staffing turnover of senior management leading to reduced leadership capacity –** The management structure was currently being reviewed to ensure continuity of business. The FD post had been recruited to (including interim arrangements) and two further posts had been identified and advertised.

The Principal concluded by saying that all the risks which had deteriorated (‘red’ risks) were either financial or IT related and he confirmed that these areas were being managed carefully.

Governors sought clarification on the progress being made with GDPR. The Principal confirmed that the Policy and Procedures were in place ready to be ‘rolled out’, with the exception of one which was still being developed. He outlined the plans to digitalise and destroy the vast quantities of analogue information held in the College’s archive store.

**Members of the Committee reviewed and noted the contents of the paper and the mitigation in place to reduce the risks identified.**

**18/18 Internal Audit Progress Report for the year ended 31 July 2018**

Members of the Committee received and noted the Internal Audit Progress Report for the year ended 31 July 2018. Mr Canham, Mazars, spoke to the report and explained that the purpose of the report was to update the Audit Committee on the progress in respect of the Operational Plan for the year ended 31 July 2018. He went on to remind members that the Plan had been considered and approved by the Committee at its meeting on the 8th June 2017 with an updated operating plan confirming the inclusion of the Subcontracting Controls Review which had been considered at the November 2017 meeting.

Members noted that two reports had been finalised since the March 2018 meeting which related to Learner Number Systems and Apprenticeship Levy Implementation. Fieldwork had been completed on Subcontracting and IT Strategy and Security and the status of those reports was noted as follows:

* **Subcontracting Controls** – Awaiting publication of the 2017/2018 ESFA guidance on Subcontracting Controls. Mr Canham stated that the guidance had been imminent since January 2018 and promised at the end of April but it had still not been published;
* **IT Strategy and Security** – Members noted that the draft report was currently under discussion with management but this area was likely to remain ‘Limited Assurance’;

Mr Canham confirmed that this would then concluded the 2017/2018 Plan. In addition, he advised members that he had met with the Director of Finance and Funding to produce a Draft Operational Plan for 2018/2019 which was a separate item on the agenda for the Committee’s consideration.

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

**19/18 Internal Audit Report – Learner Number Systems (03.17/18)**

Members of the Committee received the Internal Audit Report for the Learner Number Systems review which had taken place in May 2018. Mr Canham spoke to the report and explained that the scope of the audit visit had been to review aspects of compliance with the funding rules as set out in the Education and Skills Funding Agency (ESFA) Advice:

* Funding regulations for post 16 provision 2017 to 2018;
* Adult education budget funding and performance management rules 2017 to 2018; and
* Apprenticeship funding and performance management rules 2017 to 2018, together with other relevant guidance.

The Internal Audit service had not directly assessed the controls around Learner Numbers, however, the reports had made recommendations to improve the control environment based on the results of the testing of compliance with the funding rules. This area was subject to annual review within the Internal Audit Plan as it represented a critical system of the College, particularly in respect of data in support of funding claims.

The area had received Partial Compliance assurance and 3 ‘priority 2’ (significant) and 1 ‘priority 3’ (housekeeping) recommendations had been made as part of the review. The (significant) recommendations related to the following:

* **Incorrect planned learning hours (PLH) recorded on ILR** - It was recommended that a reconciliation should be performed between the PLH of 16-19 learners and their timetabled hours;
* **Registers** – As part of the sample testing it had been noted that attendance registers were not available for several learners whilst fieldwork was completed;
* **Eligibility and prior learning** – It was recommended that a sample check of the prior qualifications of all currently funded apprenticeships at levels 2 to 4 should be performed to ensure that they did not already hold a level 4 qualification.

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. Mr Canham confirmed that the issues raised were typical for this area and there were no fundamental issues of concern.

**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.**

**20/18 Internal Audit Report: Apprenticeship Levy Implementation (04/17/18)**

Members of the Committee received the Internal Audit Report for Apprenticeship Levy Implementation (04.17/18).

The scope of the audit visit had been to undertake a review of the high level key controls and processes related to the College’s arrangements in respect of the implementation of the Apprenticeship Levy. This area was included in the Internal Audit Plan due to the significance of risk related to the area within the College Risk Register.

Members of the Committee were delighted to note that this area had received ‘Substantial’ assurance and that no recommendations to improve key controls and processes had been made as part of this review. The Chair requested that thanks and congratulations be passed on to the team for such a positive outcome.

**Members of the Committee reviewed and noted the contents of the Internal Audit Report: Apprenticeship Levy Implementation.**

**21/18 Internal Audit Report: Subcontracting Controls**

Mr Canham, Mazars, provided a progress update on the Subcontracting Controls report. He advised members that it had not possible to finalise the Internal Audit Report as the ESFA guidance had still not been published. He provided assurance to the Committee that there was nothing fundamental within the report to bring to the Governors’ attention. The guidance was expected to be published imminently and it was envisaged the report would be finalised and presented to the November 2018 meeting of the Committee.

**Members of the Committee noted the position regarding the delay in the publication of the ESFA guidance and noted there was nothing fundamental within the Sub-Contracting report to cause concern.**

**22/18 Internal Audit Report: IT Strategy and Security (05.17/18)**

Members of the Committee received the Internal Audit Report IT Strategy and Security. The scope of the audit visit had been to review the College’s IT Strategy and related controls, as well as processes for IT Security and IT Recovery.

The Chair expressed concern that not only had the report been late, which had made it very difficult to find time to read it, but it had not even been finalised with a number of recommendations that had been made still in dispute. He went on to say that the dates of the committee meetings were published well in advance and the delay in receiving the report had not been helpful. He expressed the view that he had no problem with a contentious report being presented but not having had time to read it he was struggling to know how he could provide meaningful comment.

*Neil McQueen, Head of Technical Services, was invited to join the meeting at this point and the Chair welcomed him.*

Mr McQueen explained that the report had changed since dispatch to the Committee. He stated that the key issues appeared to be that the process was being followed but the evidence documentation had not fully been written up. He advised members that, over the last two years, a significant number of changes had been made which had resulted in some documentation still in the process of being updated.

The Chair thanked Mr McQueen for his update and invited Mr Canham to comment. Mr Canham stated that discussions would need to take place with the specialist IT auditor who had undertaken the review and prepared the report.

The Chair requested that the report be finalised as quickly as possible and re-issued to the Committee at its next meeting in November 2018.

**Members of the Committee noted the current position regarding the Internal Audit Report IT Strategy and Security Report and requested that it be finalised as quickly as possible and be re-issued to the Committee at its next meeting in November 2018.**

**23/18 Internal Audit Strategy and Operational Audit Plan 2018/2019**

Members of the Committee received the Internal Audit Strategy and Operational Audit Plan for 2018/2019 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 had been provided at Appendix A1 to the report which had been compiled based on the high level risk areas identified in the risk register. The Principal stated that the areas were still to be determined and it was too soon to set a plan at this stage although it was accepted that cyber security and subcontracting would most likely be included.

**Members of the Committee reviewed the document and discussed the potential scope of business areas and the proposed number of contracted days for inclusion in the Audit Plan for 2018/2019.**

**24/18 Tender for External Audit Service Provider 2018/2019**

Members of the Committee received a paper on the Tender for External Audit Service Provider 2018/2019. The Chair advised members that the Tender Panel had met directly prior to the meeting. He went on to say that both firms that had presented to the Panel were both very credible. However, one firm had extensive sector wide experience as well as the option for the provision of additional services. The Panel had agreed to recommend that RSM be formally recommended as the Financial Statements and Regularity Audit Service provider to be approved by the full Corporation at its meeting on the 27th June 2018. In addition, the contract would be for a three-year period from 1st August 2018 to 31st July 2021 with an annual review.

**Members of the Audit Committee agreed the recommendation of the Tender Panel that RSM be recommended as the Financial Statements and Regularity Audit Service provider for a three-year period from 1st August 2018 to 31st July 2021 with an annual review for formal approval by the full Corporation at its meeting on the 27th June 2018.**

**25/18 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 were advised that a separate review of both policies had been undertaken and no changes were proposed at this time. However, members noted that a full review of all policies enshrined within the Financial Regulations would be completed during the summer vacation period for consideration at the Autumn term meeting of the Finance and Resources Committee.

Members were invited to comment and provide feedback on both policies to inform the next review process which would be completed during the summer vacation period.

**Members of the Committee reviewed the contents of the paper, noted the arrangements for the summer review and that there had been no incidents of whistle blowing or bribery reported during the 2017/2018 year.**

**26/18 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.**

**27/18 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.

Members noted that four recommendations had been completed since the last review with 3 recommendations still ‘in progress’.

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

**28/18 Annual Review and Evaluation**

Members of the Committee received a report on the annual review of the current Terms of Reference and the Annual Cycle of Committee Business and the Committee’s work to support the Board in respect of the Code of Good Governance (The Code) in ensuring effective control and due diligence. The Clerk advised the Committee that all committees of the Board were undertaking this process for their own areas of responsibility.

The Committee reviewed the key criteria enshrined within The Code and agreed that the Board was compliant. The terms of reference and the Annual Cycle of Business were reviewed and changes reflecting membership were made to comply with the Audit Code of Practice whereby it was clarified that Staff Governors should not be members of the Audit Committee. No changes were proposed to the Annual Cycle of Business

**Governors reviewed the Terms of Reference and Annual Cycle of Business for the Audit Committee and agreed they had complied during the 2017/2018 year. One change to the Terms of Reference regarding membership had been made to comply with the Audit Code of Practice and it was agreed to recommend the updated Terms of Reference to the full Corporation for approval at its meeting on the 27th June 2018. In addition, the Committee agreed that the Board was compliant with the key criteria enshrined within the Code of Good Governance which came under the Committee’s area of responsibility to review (Section 6 Financial Strategy and Audit).**

**29/18 Review of Performance of Internal Audit Service Provider 2017/2018 and Contract for Internal Audit Services**

Performance indicators had previously been established for the Internal and External Auditors and these performance indicators reviewed on an annual basis. Performance reviews continued to be undertaken annually to inform the Committee’s decision regarding the annual review of the contractual position for each audit service provider. Members of the Committee reviewed the performance for 2017/2018 for the Internal Audit Service Provider. No key issues of concern were raised. However, the Committee acknowledged that administrative issues related to the receipt of reports in a timely manner for dispatch to Governors continued to persist. The Committee were aware that the three-year contract period was now complete. In view of this fact and the issues outlined above, the Audit Committee recommended to the full Corporation that this service be retendered.

**Governors reviewed the performance assessment of the Internal Audit Service Provider for 2017/2018 and agreed to recommend to the full Corporation that this service be retendered.**

**30/18 Dates of meetings in the 2018/2019 Academic year**

The following dates for the 2018/2019 academic year were agreed with all meetings to start at 5.30 pm:

* 28th November 2018;
* 13th March 2019;
* 12th June 2019.