**DRAFT**

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**Minutes of the meeting of the**

**Audit Committee held on**

**Monday 2 December 2019, at 3.30pm in the Boardroom**

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| **Present:** | Mark Bass - Chair  Sarkis Mazmanian – Vice Chair  Balbinder Panesar |  |
| **In attendance** | Wijay Pitumpe - Chief Finance & Enterprise Officer (CFEO)  Maxine Deslandes – Director of Finance & Estates  Mike Cheetham – RSM (MC)  Mark Eagle (MacIntyre Hudson) (ME)  Victoria Eastwood - Clerk to the Corporation |  |

1. **Welcome and apologies for absence**

There were no apologies for absence.

1. **Declarations of Interest**

Members were reminded of their responsibility to declare an interest in relation to specific items on the Agenda if appropriate. Mark Bass and Sarkis Mazmanian declared an interest in Agenda item 5.

1. **Minutes of the Previous Meeting – Tuesday 11 June 2019**

The Minutes of the previous meeting held on Tuesday 11 June 2019 were agreed as a true and accurate record.

1. **Matters Arising**

An update on outstanding actions from the June 2019 Committee meeting were provided:

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| **Ref.** | **Action** | **Responsibility** | **By (Deadline)** | **Update** |
| 5. | Anti-Fraud Policy to be approved by the Audit Committee at the first meeting of the 2019/20 academic year. | Clerk | November 2019 | Policy is being reviewed and will be presented at the March Audit Committee Meeting. |
| 7. | Detailed narrative on why recommendation dates had been revised and how external factors had affected the recommendations to be provided going forward. | DOFE/Clerk | November 2019 | Ongoing |

The Clerk reported that the Progress against Internal Audit Recommendations report had been removed from the Agenda as the report was still in the process of being finalised with the relevant managers. It was agreed that the report would be emailed to the Committee as soon as it was available.

The Clerk advised that it had been agreed with the Chair during an earlier discussion that items would not be removed from the Agenda without consultation with the Chair in the first instance.

**Action: Progress against Internal Audit Recommendation report to be emailed to the Committee as soon as possible.**

1. **Appointment of Committee Chair and Vice-Chair**

The Clerk informed the Committee that as Bal Panesar was a new member of the Committee, it was suggested that the current arrangements for Chair and Vice-Chair of the Committee continued for a further academic year. The current Chair and Vice-Chair had both agreed to continue in their respective roles.

**Approved: Mark Bass to remain as Chair of the Audit Committee and Sarkis Mazmanian to remain as Vice-Chair for the Audit Committee for a further academic year.**

1. **Committee Self-Assessment Feedback 2018/19**

The Clerk referred to the self-assessment feedback and thanked the Committee for their contributions. The Committee were informed that the Search Committee had agreed to recommend to the Corporation the appointment of a Co-opted Member to the Audit Committee and this would be discussed at the December Corporation Meeting. The Clerk assured the Committee that the work of the Committee did make a difference to students but it was noted that this was at a strategic level. It was agreed that this question did not directly relate to the Committee and would be removed from the questionnaire going forward.

**Approved: The Committee approved the actions/comments to address the self-assessment weaknesses.**

**Action: Question 4.2 to be removed from the Self-assessment questionnaire.**

1. **Review of Committee Terms of Reference**

The Clerk advised that the Terms of Reference had been updated to reflect the current Post-16 Audit Code of Practice 2018/19.

The Committee agreed the minor suggestions made by the Clerk to the proposed Committee Terms of Reference for 2019/20. It was agreed that point 2.7 would be amended to specify the attendance of the CFEO at the Committee.

**Approved: Subject to the amendment to point 2.7, the Terms of Reference were approved for future use, to be ratified by the Corporation.**

1. **Committee Schedule of Business 2019/20**

The Committee considered and approved the schedule of business 2019/20 for future use.

**Approved: The Committee Schedule of Business 2019/20 was approved for future use to be ratified by the Corporation.**

1. **Internal Audit Reports**
2. **Learner Number Systems**

Mike Cheetham reported that this was a standard advisory audit to follow the ESFA funding approach and referred to conclusion in the report. He advised the Committee that as the errors applied to 100% of the sample, the apprenticeship funding should be regarded as ‘at risk’ should there be a formal ESFA finding audit.

The Committee were informed that if the College did not have skills scans in place to identify prior learning, it would be at risk of losing all ESFA funding for this area. Mike Cheetham added that there were no issues with 16-19 provision.

The Chair reported that he wrote to the Clerk in advance of the meeting advising that this was the most alarming report he had received at the College and the risk should have been flagged earlier. The Chair had met with the Chief Finance and Enterprise Officer (CFEO) and Head of CIS prior to the meeting to discuss the update on the actions point and advised as follows:

1,1 – completed

1.2 – Adjustment and reconciliation in process and will be completed by April 2020

1.3 – on target to be completed, would be changed from work experience to industrial placement scheme. The work had been undertaken but would become electronic from February 2020.

2.1 – completed – skills scan document implemented and would become electronic in February 2020 with the new system.

2.2 – implemented.

2.3 – completed - new document in place (Apprenticeship Commitment Statement)

2.4 – not undertaking any further subcontracting.

2.5 – completed

2.6 – completed

2.7 – process had been reviewed and implemented and would now be run termly to capture any changes.

With reference to point 1.2, Bal Panesar questioned why it would take until April to complete the process. The Director of Finance & Estates (DOFE) replied that there had been a change in apprenticeship rules which had resulted in a very complicated process which would take a long period of time to implement across the College. The April date was when the new system would be in place and fully operational.

The Chair advised that, having been concerned by the report, he was pleased to see the actions in place. It was agreed that the report would be provided for the Corporation at the December Meeting as it was a high level action.

The Chair questioned whether, as this was an advisory audit, a full audit on this area should have taken place given the findings. Mike Cheetham responded that as the audit was based on the ESFA funding approach it would always be focussed on a sample section of data.

Bal Panesar stated that the onus was on the Committee to assess the risk and ensure the appropriate action was being taken.

The Chair reported that there had been a timing concern regarding the issuing of the report but lessons had been learnt. The College has been subjected to two ESFA audits in previous years and the outcomes had been satisfactory on both accounts. The CFEO added that the Internal Auditors would undertake a follow up audit to ensure the recommendations had been fully implemented.

**Action: Learner Number Systems report to be included with the Audit Committee report at the December Corporation Meeting.**

1. **Follow Up**

Mike Cheetham reported that the overall conclusion for the follow up audit was that good progress had been made.

The Chair referred to the HSE actions which had been delayed and advised that he had raised this with the Designated Governor for HSE.

The DOFE informed the Committee that this was the first time HSE had been followed up as a review by the Auditors. It was agreed that the action dates had not been bet by the managers and it was the College’s role to ensure the recommendations were escalated to management. The College had stated in the report that it would review in 12 months’ time which was why a specific date had not been provided.

Bal Panesar stated that mitigation and correction action should be undertaken as soon as possible but actions dates should not be set if they were unachievable.

The Chair referred to the recommendation regarding the business planning document. The DOFE advised that it has been an appendix stating the timeline as to what happened and when which had been omitted from the document. The omission had not affected the business planning process but it would be ensured that timeline would be included in the documentation for the 2020/21 planning process.

**Agreed: That the Internal Audit reports and current positions be noted.**

1. **Internal Audit Annual Report 2018/19**

Mike Cheetham referred to the Internal Audit opinion: ‘overall the College has been assessed as having adequate and effective governance, risk management and internal control processes to manage the achievement of its objectives for 2018-19,’ and advised that this was consistent with previous years and other FE Colleges. The remainder of the report summarised the internal audit report findings as previously discussed.

The Chair noted that the HSE concerns had been reiterated in the report. The DOFE added that sometimes the issue were taken out of context.

**Agreed: That the current position be noted.**

1. **Internal Audit Plan 2019/20**

Mike Cheetham advised that the internal audit plan for 2019/20 was submitted for the Committee’s approval however it was acknowledged that the plan could change in line with priorities. The plan was a broad mixture of risk and business type assurances and covered a reasonable remit.

The CFEO stated that the key issues were covered included items on the risk register and the current issues in the sector.

In response to a query from the Vice-Chair, Mike Cheetham confirmed that the fees were in line with the sector and a daily rate had been agreed.

Bal Panesar queried when the last ICT Business Continuity had taken place and whether this included cyber security. The CFEO responded that it had been several years since an audit had been undertaken in this area. The audit planning scope would be looked at and reviewed by management.

Bal Panesar asked what the focus would be for the next learner numbers audit. Mike Cheetham replied that it would be a random sample based on the 19/20 data. Bal Panesar added that the College needed to ensure corrective actions had been undertaken before this audit. The DOFE advised that the follow up audit would test the implementation of recommendations.

The Clerk reported that the self-assessment process and appraisal process was now complete (including feedback to committees) and the Board effectiveness review would take place in the New Year. She added that the purpose of the review was to ensure current practices were working effectively but also to provide suggestions for improvement.

**Approved: The Committee approved the Internal Audit Plan 2019/20**

1. **Draft Report & Financial Statements for y/e 31 July 2019**

The CFEO reported that the Draft financial statements clarified the accounts for 2018/19 and recorded his thanks to the DOFE for her work on this.

The Committee were informed that the surplus on the College operating activities was £0.741m excluding FRS102. The College’s subsidiary companies BDC@Broadway Ltd, Apprenticeships Work Ltd, and Aspire Training & Enterprise Ltd and Hairazors Ltd made net deficits of £88k. Thus the total Group surplus for 2018/2019 including FRS102 was £0.075m.

The DOFE reported that the Financial Statements Audit team usually attended the College for two weeks but due to the merger between MacIntyre Hudson and Baker Tilly there had been a significant increase in testing (from 6 items to 24) resulting in the audit lasting for 5 weeks.

The CFEO advised that there had been a change re ESFA financial returns. In addition to the financial plan approved by the Corporation on 31 July, the ESFA had produced a new integrated financial statement for Colleges with a submission deadline of 28 February 2020. A paper would be presented to the Corporation at the December Meeting as there was an issue with timings re approval of the plan at the appropriate Corporation Meeting.

In response to a query from Mike Cheetham, the CFEO advised that the OfS was not referenced in the financial statements as it would concern 2019/20 but was less than 3% of income.

The DOFE stated that the Draft version of the Financial Statements would be finalised and presented to the Board at the Corporation Meeting on 9 December 2019.

The Committee considered Agenda Item 13 – Draft Financial Statement Audit Management Report/Letter and approved the Draft Financial Statements y/e 31 July 2019 to be recommended to the Board for approval.

**Recommendation: The Committee approved the Draft Financial Statements y/e 31 July 2019 to be recommended to the Board for approval.**

1. **Draft Financial Statement Audit Management Report/Letter**

Mark Eagle referred to the key audit issues on page 6 of the report and confirmed that these were all resolved from an audit point of view. He took the Committee through each page of the report, highlighting the following in detail:

* Income decrease of £1,160K as a result of slightly lower numbers
* Expenditure –total staff costs increased but gross wages reduced by 2.4%
* Operating expenses decreased – small surplus – good performance
* Fixed assets increased due to D Block development
* Good will and investments decreased
* Debtors – trade debtors decreased
* Cash in bank decreased due to D Block capital
* Accruals decreased by 31%
* Receipts in advance significantly decreased due to decrease in tuition fees received in advance (largely due to initial receipt of apprenticeship levy funding utilised in current year)
* Bank loans – reducing in line with repayment schedule
* Pension scheme – large actuarial loss – standard across the sector
* Subsidiaries not been as successful this year as they have been in the past.
* Control points noted during the prior year audit - position improved - couple of issues carried forward re sales invoices/back log of processing of purchasing invoices at one point but improved towards the end of the year/ Employment contracts – usual in the sector but worth reviewing.
* Regulatory audit - unqualified opinion

The Committee were provided with benchmarking comparison data to Colleges of similar size which included:

* Cash days in hands – on national average
* Dependency on funding body income - below national average
* Surplus/ deficit – shows where we are – good position!
  + Pay/expenditure – depends on the size of the College – average over 70/College below average
* Capital expenditure – lot of capital work in the sector

Bal Panesar queried the procedure for aged debtors. The DOFE provided examples of some cases of debt and clarified that the College chases the debt for six years and will refer to debt collection agencies if it is a legitimate debt. Debts were reviewed each month and pursued accordingly.

In response to a query from Bal Panesar, the DOFE explained that the Senior Leadership Team acted as the Risk Committee. There was a subsidiary risk register for each area in place and the Minutes of the Subsidiary meetings were reported to Policy & Resources Committee and the Corporation.

The CFEO stated that very few Colleges had made a surplus in 2018/19.

**Recommended: That the Draft Financial Statement Audit Management Report/Letter be recommended to the Corporation for approval.**

1. **Annual Report of the Audit Committee to the Corporation**

The Clerk presented the Annual Report of the Audit Committee advising that the report contained findings from both the Internal and External auditors that had been reported earlier in the meeting**.**

Mike Cheetham advised that paragraph 1.2 needed to be amended to reflect the specific wording within the Audit Code of Practice which would also be reflected in paragraph 7.2. This was agreed.

The Committee were asked to consider the following (it was acknowledged that although the wording required amendment the content was the same):

‘Having considered the work of the College’s internal audit service and its financial statements auditor and taking account of reports received throughout the year from the College’s management and assurance provided by other sources e.g. ESFA, the Audit Committee advises the Corporation that the College’s systems of internal control and its arrangements for risk management and governance processes are adequate, operating effectively and can be relied upon when the Board of Corporation are considering the financial statements for the year ended 31 July 2019. This was unanimously agreed.

The Committee agreed to approve the report subject to the proposed amendment, the Chair to sign electronically.

**Approval: The Annual Report of the Audit Committee 2018/19 was approved to recommend to the Corporation, subject to the proposed amendment.**

1. **Risk Register**

The CFEO reported that new additions to the Risk Register were highlighted in purple. Learner targets remained as amber and risks for the pensions and Brexit were still unknown.

The Committee were advised that the OfS had been removed as the College was not on the register but discussions would take place with the Senior Leadership Team to include a risk on how the College would deliver Higher Level Skills.

The Vice-Chair stated that there was a risk of failing to re-enter the register. The Chair added that the risk should be HE provision to cover the area. This was agreed.

The Chair noted that some items did not have a named person for the risks. The CFEO agreed to amend this.

Bal Panesar questioned whether the risks pertaining to marketing issues and external relations should sit with the Principal/CEO. The CFEO replied that these were his areas of responsibility within the structure.

**Agreed: That the current position be noted.**

**Action: HE Provision Risk to be added to the Register.**

**All risks to be allocated for the responsibility of a named individual**

1. **Any Other Business**

There was no further business.

1. **Date and Time of Next Meeting – Monday 16 March 2020, 6pm**

The Chair thanked all present for their contributions.

The meeting concluded at 4.45pm.



**ACTIONS FROM MEETINGS OF THE AUDIT COMMITTEE**

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| **Ref.** | **Action** | **Responsibility** | **By (Deadline)** | **Update** |
| Matters arising | Progress against Internal Audit Recommendation report to be emailed to the Committee as soon as possible. | DOFE/Clerk | ASAP |  |
| 6. | Question 4.2 to be removed from the Self-assessment questionnaire. | Clerk | ASAP | Complete |
| 7. | Point 2.7 to be amended to include reference to the CFEO. | Clerk | ASAP | Complete |
| 9. | Learner Number Systems report to be included with the Audit Committee report at the December Corporation Meeting. | Clerk | 9 December 2019 | Complete |
| 14. | Paragraph 1.2 to be amended to reflect the specific wording within the Audit Code of Practice which would also be reflected in paragraph 7.2. | Clerk | ASAP | Complete |
| 15. | HE Provision Risk to be added to the Register.  All risks to be allocated as the responsibility of a named individual | CFEO | ASAP |  |

Signed…………………………………….. Date……………………………….

Mark Bass (Chairman)