

**Minutes of the Audit Committee Meeting
of the Corporation held at the College at 4.15pm on
Tuesday 21 November 2017**

Members Present: Ms L Burt
Mr A Minter (left at 5.40pm)
Mr T McCaffery
Mr R Tonge (Chair)
Ms S Ward

In Attendance: Ms K Shaw - Southern Internal Audit Partnership
Mr J Cox - Group Finance Director
Ms F Millar - RSM
Ms P Schweitzer - Clerk to the Corporation

Apologies: Ms Calderbank and Mr McCaffery

M i n u t e s

Part 1 – Standing Items

855 Apologies for Absence

Ms Calderbank and Mr McCaffery sent their apologies.

856 Membership

The Chair welcomed members to the meeting, his first as Chair, and everyone introduced themselves. In response to a question concerning membership, the Clerk stated that the Committee had the minimum number set out by its Terms of Reference but had a vacancy for a co-opted member. The Clerk had raised this issue at Search Committee previously and would do so again at its meeting the following week.

857 Declaration of Interest

There were no declarations of interest.

858 Minutes

The minutes of the meeting held on 23 May 2017 were **Agreed** as an accurate record and signed by the Chair.

859 Matters Arising

There were no matters arising that were not covered in the Agenda.

Part 2 - Matters for Decision

860 **Audit Committee's Annual Report to the Corporation**

The Committee considered Paper 2324/17/A setting out the Committee's annual report to Corporation.

This report provided a record of the Committee's work over the last twelve months and provided assurance to the Corporation and the Principal as Accounting Officer, on the adequacy and effectiveness of the College's risk management, internal control and governance systems. It was written in the name of the Chair of the Committee.

There was a brief discussion about the report, with the Chair concluding that he was happy to put his name to it. It was **Agreed** to recommend the Audit Committee's Annual Report to Corporation.

861 **Strategic Internal Audit Plan & Annual Internal Audit Plan**

The Committee considered Paper 2325/17/A setting out the strategic internal audit plan and annual internal audit plan.

The report reviewed the College's audit needs and recommended the strategic audit plan covering the three financial years 2017/18 to 2019/20. The plan was subject to ongoing review of the College's risk register by the College and Southern Internal Audit Partnership (SIAP). Although there was no longer a mandatory requirement for colleges to have an internal audit service, the College had decided to continue to plan on the basis of a Public Sector Internal Audit Standards (PSIAS) compliant internal audit service and the plan had been prepared on that basis. In accordance with the PSIAS, the audit strategy and annual audit plan had to be approved by the governing body on the recommendation of its Audit Committee.

Ms Shaw stated that SIAP worked on the basis of a three year rolling plan, with the annual plan finalised in the light of the College's risk register and dialogue with the Group Finance Director. Usually the plan covered approximately 40 days, however, in line with the College's requirement to make in-year efficiency savings, the 2017/18 plan had been reduced to 25 days. Ms Shaw stated that a number of areas had dropped out of the plan quite naturally and she was content that SIAP would be able to provide the annual assurance that the Committee needed in 2017/18 within this reduced timeframe. However, to continue that reduction year on year would require a more in-depth discussion to ensure that assurance could continue to be given. The number of audit days for 2018/19 was closer to the usual number but this was only illustrative at this stage. Ms Shaw stated that it was normal for low risk areas to be removed from audit plans and there was always the option for areas to reappear if there were increased risks. In response to a question, the Group Finance Director stated that the decision to trigger an internal audit could be made by the Committee. The Chair noted that this was a significant reduction in days and asked what made staff utilisation (one of the areas removed from the plan) low risk. Ms Shaw stated that this followed a discussion with the Group Finance Director and examination of the risk register as well as the fact that this area had been audited previously.

The 2017/18 internal audit plan covered: risk management, learner numbers system including income streams, health and safety, offsite activities, fundamental financial accounting including monitoring and debtors. Ms Shaw stated that work was on track for 2017/18 with dates agreed ahead of time to ensure fit with Corporation's meeting cycle.

The Committee noted that a discussion would be necessary concerning the number of audit days in future years. The strategic internal audit plan and annual internal audit plan was **Agreed**.

862 Review of Terms of Reference

The Clerk presented Paper 2326/17/A setting out the review of the Committee's Terms of Reference (ToR).

The purpose of the paper was to review the ToR to ensure they remained fit for purpose as well as to review the Committee's performance against them in 2016/17. No amendments to the Committee's ToR were proposed.

After a brief discussion it was **Agreed** to recommend Audit Committee's Terms of Reference to Corporation for approval.

Part 3 - Matters for Discussion

Minute 863 was confidential.

864 Presentation: Overview of Role of Internal Auditor

The Clerk introduced this item, stating that the Committee periodically received a short presentation (usually following membership changes) to ensure members fully understood the role of internal audit within the College.

Ms Shaw gave a presentation on the role of internal audit, including an overview of sector changes, why continue to have internal audit, the audit approach and relationships. A handout was distributed.

The Chair asked how SIAP supported their staff's professional development to enhance their work. Ms Shaw responded that this was an important issue for SIAP as it was crucial to keep staff up to date. All vocational staff were qualified to at least accounting technician level, with most having further qualifications, and some had CPD requirements as part of their institute membership. Non-vocational staff were also qualified. Some staff undertook additional specialist training in areas such as IT and fraud.

The Chair thanked Ms Shaw for her interesting and informative presentation.

865 Internal Audit Report – Summer Term 2017

The Committee considered Paper 2327/17/A setting out the internal audit report for the summer term 2017.

The summer term 2017 audit covered: governance, asset controls, student support services including learner support funds and payroll and there was a follow up review on progress made in implementing agreed actions in relation to work placements and procurement and payments. Student support services and payroll were given substantial assurance, governance was given adequate assurance and asset controls was given limited assurance.

There was a discussion about the limited assurance given to asset controls and the resulting action plan. The Group Finance Director confirmed that the introduction of a monthly review of I&E spend for capital items and review of capital items identified for inclusion in the asset register had been completed, with the generation and replacement of bar codes for assets on the register to be completed during the next inventory check. Ms Shaw stated that this was likely to feature in follow up work in the future and that fixed asset registers came up regularly across the public sector.

One member asked about the work placements review from the 2015/16 audit when SIAP found that only some of the management actions had been implemented. Further action plans had been drawn up and these had now been completed. The member expressed concern regarding safeguarding and the fact that issues could arise when risk assessments were not in place, noting the increased risk when more people were involved in drawing up risk assessments and responsibility was disseminated. It was a particular challenge given that all students had an element of work placement in their studies. The Staff Governor stated that Account Executives supported employers in completing health and safety assessments and were working to embed these into the College's dealings with all the companies it worked with. The Group Finance Director stated that members were right to be concerned as insufficient progress had been made and the aim was for a clean follow up audit. There was a huge reputational risk if something were to happen to a student, as well as possible breaches of contract. He stated that a great deal of work had been carried out in this area and better processes and procedures were now in place. Ms Shaw stated that from SIAP's experience at other colleges, it was possible for the Committee to ask for a specific report from management. The Group Director asked whether the Committee would like a report to map out the process and stages and to provide assurance that the College had a coherent approach to the issue. The Committee **Agreed** that this would be helpful and asked that it be brought to its next meeting.

The Internal Audit Report – summer term 2017 was **Noted**.

866 Internal Audit Annual Report 2016/17

The Committee considered Paper 2328/17/A setting out the annual internal audit report 2016/17.

The College's internal auditors provided an independent and objective opinion on the overall adequacy and effectiveness of the College's risk management, control and governance processes. The report was prepared in accordance with the PSIAS. The audit opinion from SIAP was '*I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Highbury*

College's internal control environment. In my opinion, Highbury College's framework of governance, risk management and management control is adequate and audit testing has demonstrated controls to be working in practice. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.'

The report summarised the internal auditor's activity in 2016/17 including the areas audited and related key issues. There was a question concerning the area of safeguarding which had been given substantial assurance, with the Group Finance Director clarifying that this was not linked with the grade 2 SAR assessment. There was a brief discussion concerning the customer satisfaction survey, with Ms Shaw stating that this was an annual assessment based on returns from all SIAP's customers and staff.

The Internal Audit Annual Report 2016/17 was **Noted**.

867 Review of Outstanding Items

The Committee considered Paper 2329/17/A setting out the review of outstanding items.

This review detailed the current position on the outstanding actions as agreed by management from previous audit recommendations and showed that the majority of actions had been completed.

One member queried the actions concerning IT controls and more specifically the backing up of all data and servers, stating that whilst he had no reason to doubt management's assurance, he felt uncomfortable that the Committee simply relied on it. The Group Finance Director suggested that the internal auditors test this at their next visit and Ms Shaw agreed this would be done.

There was a discussion concerning the subcontracting controls assurance relating to the IBM contract. The Group Finance Director stated that IBM wanted a number of amendments to the contract, some of which could breach ESFA requirements. The contract was now coming to an end and the College was not taking any more IBM learners so it was likely to remain unsigned. The College was however duty bound to try to resolve the issue.

The Review of Outstanding Items was **Noted**.

868 Financial Statements & Regularity 2016/17

Ms Millar presented Paper 2330/17/A setting out the financial statements and regularity audit 2016/17.

RSM were required to prepare and present the findings of their audit, including a summary statement of the final accounts for the financial year to the Audit Committee. The draft report did not raise any material matters of irregularity or compliance. The report was a first draft as information was still being finalised. The College would respond to the report prior to the submission of the final report to Corporation in December.

Ms Millar noted that the audit process had gone smoothly, thanks to the Group Finance Director and College Accountant and she hoped to complete the audit the following week. There were a few areas of judgement to bring to the Committee's attention and Ms Millar talked through the key issues.

Section 2 concluded on the risks identified at the planning stage including going concern. She noted that the College's financial health had deteriorated over the last four years, including cash reserves and she drew member's attention to the pinch point in the spring. The accounts had been prepared on a going concern basis and she stressed that members needed to be satisfied that the College could meet its liabilities within a 12 month period. In response to a question, the Group Finance Director stated that there were a number of variables in the cashflow forecast that made it difficult to predict if the £43k balance identified in the accounts at the March 2018 pinch point would be correct. The College had a monthly expenditure of £300k and cashflow was monitored on a daily basis. Variables included the sale of the property for £300k and apprenticeship funding (the College was hitting its targets but delays in receiving funding were anticipated). He noted that the situation picked up quickly after March and that the bank had agreed to provide a £250k overdraft facility if required. Delaying payments to suppliers was an option, as was transferring the College's money from Nigeria although this was not a preferred option due to the high commission fees.

Ms Millar brought the issue of the losses incurred by the College's subsidiary companies to the Committee's attention, namely that New Horizons Training Services Ltd recorded a loss of £410k prior to a late intercompany recharge and NW Training Ltd a loss of £250k. The College had made changes to the direction of both companies and it was hoped that there would be a turnaround in the current year. Ms Millar noted that the companies' financial performance was being reported in detail to Finance Committee. The Chair asked how the companies' boards were constituted and the Group Finance Director stated that they included a senior manager from the College. He clarified that the New Horizons debt was mostly owed to the parent company and was not external debt, stating that 6% of the income generated by New Horizons was payable as franchise fees so it was not in the College's interests to bill the College income. The College had now exited the franchise agreement and the balance would come down over time. With regards to NWT, it was a relatively new start-up company so it was early days, however the model of the company had been changed and it was anticipated that it would start to earn money the year after next. Ms Millar stated that it was important to look at the legal entities and whether or not they were going concerns, given that both companies had a huge amount of debt.

Section 4 provided a summary of the unadjusted / adjusted misstatements relating to the College and its subsidiary companies which was fairly high.

Section 6 set out significant deficiencies in internal control. Areas identified were casual staff, VAT returns, holiday pay and IT controls. The Chair asked how these would be addressed and the Group Finance Director stated that, if significant, they would be included in the review of outstanding items.

Section 8 identified uncertainties, risks, exposures, judgemental issues and going concern and Ms Millar drew the Committee's attention to the VAT

receipt expected by the College following the outcome of the Brockenhurst case. Ms Millar highlighted the risk to the College if HMRC demanded repayment of the unpaid Lennartz balance (£173k in 2016/17). The Group Finance Director stated that the College and HMRC were in stalemate, with roughly equivalent amounts of money owing to each other.

The letters of representation in Appendix A provided assurance and Appendix B outlined emerging issues in the sector.

The Chair thanked Ms Millar for the report and the draft Financial Statements and Regularity 2016/17 were **Noted**.

869 Risk Management Monitoring

The Managing Director, Technical Professional joined the meeting and presented Paper 2331/17/A concerning Risk Management Monitoring.

The risk management monitoring report provided an update on the status of the College's Strategic Risk Reduction Plan, including an overview of the change in movement of any of the strategic risks identified on the Strategic Risk Register for inclusion in the Plan, a commentary on the risks and any updated action plans.

There were 23 strategic risks on the Strategic Risk Register including one that had been downgraded and removed from the Plan but remained on the Register. No additional risks had been identified for inclusion in the Plan, meaning that 10 strategic risks were being monitored through the Strategic Risk Reduction Plan. Of these 10 risks, eight had no change. A commentary was provided on the remaining two. Action plans for all risks in the Strategic Risk Reduction Plan were appended to the report, as were details of the risks associated with the College's subsidiary companies.

The first changed risk was Risk 6: *'Non-compliance with Health & Safety, Safeguarding, Equalities legislation and other legal requirements may lead to legal action against the College, poor regulatory body judgements, unplanned costs and damage to reputation.'* This risk had been upgraded to take account of the General Data Protection Regulation (GDPR) coming into force in May 2018 and requiring businesses to protect the personal data and privacy of EU citizens for transactions that occur within EU member states. Non-compliance with the GDPR could incur strict penalties. A number of senior managers had undertaken external training and a training session had taken place as part of the All Staff Development Day in October. This area would continue to be kept under close review. The second risk was Risk 14: *'Failure of the curriculum offer to meet the needs of regulatory bodies, individuals and employers may lead to low achievement and success rates, failure to achieve success in inspection, failure to achieve student recruitment targets, significant reductions in funding, and damage to reputation.'* This had been upgraded due to the fact that five sectors (Apprenticeships, Construction, Foundation Pathways, Maths & English) had been placed into special measures, meaning that there had been at least a two year trend of low achievement and / or teaching and learning grades. Each sector was required to attend a monthly meeting, chaired by the Principal, to track and monitor the progress of students to secure improvements.

One member raised a strong concern around retention, the curriculum offer and the areas in special measures stating that these issues were interrelated and would in turn affect achievement rates as well as the College's reputation and ability to grow over the longer term. It was therefore crucial to ascertain the root of the problems and address the issues more effectively through a multi-faceted approach and the governor asked what action was being taken to resolve the issues. The MD stated that retention / withdrawals was not a problem unique to the College and anecdotal evidence suggested it could be due in part to the raising of the school leaving age although it was too early for empirical evidence. The College had initiated 'swop not drop' weeks for students who didn't feel they were on the right course and was carrying out more robust career planning.

The Chair asked how the College mitigated the eight risks retaining the same status, particularly with regard to the external environment and how it knew these actions were effective and on what evidence. The MD stated that each risk had a short statement outlining the action taken and was supported by metrics and data that was regularly considered by senior managers at Business Results meetings. The Group Finance Director stated that Corporation's termly Quality Report reported on these issues and should reference the risks in the risk register. One governor stated that there wasn't enough time to discuss the Quality Report at Corporation. The Group Finance Director stated that the Agenda needed to be re-ordered to reflect the importance of quality issues and suggested members might wish to receive a regular quality report (possibly every two months), in the same way that they received a monthly financial monitoring report. The report could be drawn from the business results meetings so as to minimise duplication.

The Risk Management Monitoring Report was **Noted**.

Part 4 – Matters of Confidentiality

Minute 870 was confidential.

Self-Assessment of Meeting

No self-assessment forms were returned.

Date of Next Meeting

Tuesday 06 March 2018 @ 4:15 p.m.

The meeting ended at 7.05 p.m.