



**WEST NOTTINGHAMSHIRE COLLEGE
AUDIT COMMITTEE**

Minutes of the Audit Committee meeting held in the Boardroom at the Derby Road site on Thursday 7 November 2013 at 5.00 pm

BOARD MEMBERS PRESENT: Diana Meale
Nevil Croston (Chair)
David Overton

ALSO IN ATTENDANCE: Maxine Bagshaw, Clerk to the Corporation
Andrew Martin, Deputy Principal/Director of Finance
Asha Khemka, Principal and Chief Executive
Tom Stevens, Executive Director: Capital Projects & Estates
Andrew Argyle, KPMG
Dan Hayward, KPMG
John Tomlinson, KPMG (until 5.45 pm)
Louise Tweedie, Baker Tilly.

It was noted that Auditors had not wanted to meet with the Committee without Management present.

ACTION by whom	DATE by when

13.26 APPOINTMENT OF COMMITTEE CHAIR

The Principal introduced this item and indicated that, if as discussed at the last board meeting, Nevil Croston is to take over the position of Chair of the Board, then the Instruments and Articles of government preclude him from continuing as Chair of the Audit Committee. It was acknowledged that he could remain as the Committee Chair up to the point of appointment which is envisaged as 1 January 2014, but then after that period, an alternative Chair of the Committee would need to be identified. Nevil Croston was nominated as the Committee Chair for this meeting only and David Overton was nominated to Chair the Audit Committee for the remainder of the academic year.

AGREED:

- a) To appoint Nevil Croston as the Audit Committee Chair for this meeting only.
- b) To appoint David Overton as the Committee Chair from 1 January 2014.

13.27 DECLARATIONS OF INTEREST

The Chair reminded those present to declare any interest they may have on any items on the agenda. No interests were declared.

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13.28 WELCOME INTRODUCTIONS AND APOLOGIES FOR ABSENSE

Apologies for absence were received from Chris Bodger, Louise Knott and Patrick Green of Baker Tilly.

13.29 MINUTES OF THE MEETING HELD ON 27 JUNE 2013

AGREED: To approve the minutes of the meeting held on 27 June 2013.

13.30 MATTERS ARISING AND ACTION PROGRESS REPORT

Members reviewed the minutes and the Action Progress table and noted/commented upon the following:

- Page 4 – The Director of Finance indicated that the partner activity report requested had not been included on the agenda for this meeting as it was quite a heavy workload in any event. He confirmed that the report requested would be rolled over and presented to the Committee at its February 2014 meeting.
- Capital Projects Subcontractors – The Executive Director: Capital Projects and Estates confirmed that he has prepared a list of significant contractors, but has not included all as there are some relatively minor contracts in place.
- Capital Projects – Capital Projects Completion analysis. The Executive Director: Capital Projects and Estates confirmed that he is undertaking quality surveys on a month by month basis to review costs, energy etc. He confirmed the intention to produce a post assessment evaluation rather than a lessons learned report which is due June 2014. The Committee were happy to amend the action progress table to reflect this.

AGREED: To note the update provided.

13.31 2012/13 FINANCIAL STATEMENTS AUDIT MANAGEMENT LETTER

Andrew Argyle from KPMG introduced this item and drew a number of matters to the Committee`s attention:

- Page 2 – This provides a summary of progress in relation to the audit. He was happy to confirm that KPMG were able to provide a clean audit report and an opinion. He indicated that the audit this year had been an interesting one given the VWS acquisition. It was noted that the college has been required to make additional disclosures and that the team are currently working together to finalise. It was acknowledged that there may be small amendments to the report as a consequence of this. However, it was noted that there would be no impact upon the figures. In terms of the outturn and financial

Director
Finance

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position for the college, the operating position is lower than in previous years. KPMG felt that it was important to note the differentials.

- Page 3 – Sets out the background of the audit and confirms KPMG's independence and explains the change in nature of the college structure given the acquisition of VWS.
- Page 4 – This is the income and expenditure report. An analysis has been provided for both pre and post VWS acquisition. This is to allow the Board to better understand the core trading position. Total income for the group £53,020m. Operating deficit for the year is £787k (this is the post acquisition figure and would in fact be worse were it not for a £554k contribution from VWS). Reconciliation to total income resources for the year has been provided as an extra piece of analysis. Total income in resources for the year is £63,514m and should be compared with £47,936m in 2012. He confirmed that the result for the year is reported in accordance with required accounting practices under UK GAP.
- Page 5 – This provides details of the underlying trading position and shows a clear downturn in the core provision. This section also details contributions made by subsidiary companies and a clear assessment of the impact of all of the companies of the college group.
- Page 6 – This is the balance sheet which shows a big increase in tangible assets. It was noted that the college has continued with its major capital programme in the year and the total capital spend reflected in the tangible fixed assets is £11.9 million. It was noted that, at this point in time, there are no ongoing disputes with contractors. Governors were advised that the cash balance is healthy at £6 million (of this amount £2.6 - 3million relates to the residue of the dowry). It was acknowledged that this residue is allocated to expected liabilities. However, there may be some upside to performance.
- Page 8 – This details the pension liabilities which have slightly reduced, but are still a big number. Of particular note is the fact that future pressure requirements on employers of the scheme are unlikely to go down.
- Audit progress – It was acknowledged that good progress has been made. The regularity order has been completed with no observations having been made by auditors.
- Page 10 – This is the Corporate Government Statement. It was explained that the college has made a fully compliant Corporate Government Statement and auditors are required to review this to assess whether the description of the process adopted by the college in reviewing the effectiveness of the systems of internal control are consistent with their understanding of the process and report any inconsistencies. KPMG are not required to provide an opinion on the college's systems of internal control. They have confirmed that they have reviewed the Corporate Government Statement and it is consistent with their understanding of the process followed by the college during the year.

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- Page 11 – This page sets out lessons learned. Auditors confirmed that they need to engage with the college at an earlier stage to ensure that the planning and interim reviews are undertaken earlier in the year to ensure that all of the team are fully aware of work and paper requirements.
- Page 12 – This details progress made on prior year recommendations. Auditors are happy that the three recommendations had been implemented.
- Pages 13 to 15 – Provides an update on issues raised in the audit strategy memorandum.
- Page 16 – This section details a summary of audit differences. It was confirmed that there are no uncorrected audit differences. It was acknowledged that there were some VWS issues discussed during the audit but these have all been addressed.
- Page 17 – This summarises the pension assumptions.
- Page 20 onwards – A summary of sector developments have been provided.

In terms of the audit process the committee were advised that acquisition accounting is not something colleges do every day and that, as a result, there has needed to be a lot more dialogue this year than in previous years. Auditors believe that the teams had done really well to have finalised the accounts at this point in time. It was acknowledged by all that this has been quite a difficult audit for the college as there were new issues to address with much more complicated requirements. All felt that the staff had worked hard to resolve any issues that had come to light.

The Director of Finance acknowledged that the accounts show that there are some underlying business problems to address. He assured the Committee that college staff are clear regarding what needs to be done going forward. In terms of the audit the team now has a much clearer idea of the accounting framework requirements. He acknowledged that there had been lessons learned regarding the timing of the audit and it was his expectation that next year would be a much smoother process.

AGREED: To note the content of the 2012/13 Financial Statements Audit Management Letter.

13.32 FUNDING AND SECTOR RISKS – A PRESENTATION FROM KPMG

John Tomlinson introduced this item and confirmed that his presentation would fall into two sections; a) apprenticeships and b) funding overview.

APPRENTICESHIPS

He explained that the objectives of his presentation were to provide an update on apprenticeships following the publication of two recent BIS documents and to allow the Audit Committee to raise questions about apprenticeships. Contents of his presentation include:

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- Review of the two recent BIS publications on the future of apprenticeships
- Trailblazers
- Timeline
- Implications for the college

The Committee were provided with a summary of the content of two key BIS documents published in October 2013. These are: 1) the future of apprenticeships in England implementation plan, 2) the future of apprenticeships in England guidance for Trailblazers.

Key themes arising from the documents are:

- Standards designed by employers to meet their needs
- Employer led apprenticeships will be designed to meet the needs of SMEs as well as large firms
- Government will set criteria that all new apprenticeship standards will need to meet
- Competence of apprentices will be tested through rigorous independent tests at the end of the apprenticeship
- Grading – Pass, Merit, Distinction and Fail
- Stronger focus on English and Maths

Trailblazers - employers and professional bodies will lead trailblazers to design the new apprenticeships. Initially they are in a number of key areas:

- Aerospace
- Auto motive
- Digital
- Electro-technical
- Energy and Utilities
- Financial Services
- Food and Drink manufacturing
- Life Sciences and industrial

Timeline:

- 1) October 2013 - trailblazers announced
- 2) October to January 2014 - trailblazers start to develop apprenticeship standards and assessment approach
- 3) February 2014 - standards and assessment approach submitted by the first trailblazers
- 4) March 2014 – Secretary of State signs off the standards and assessment approach
- 5) April 2014 – assessment approach worked up and education and training providers update content and materials
- 6) End of 2014 year first new apprenticeships delivered

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What do these changes mean for the college?

- Government is intent on making changes to apprenticeships – basically implementing the Richards agenda.
- It would be fair to say there is some pushback to aspects of these changes e.g. Stuart Segal's article in the Guardian urging caution on some aspects eg grading, inclusion of all learners, inclusion of small employers.
- Will colleges be tempted to wait and see how all this plays out?
- Will employers hold back from offering apprenticeships?
- Potential detrimental impact on providers holding back from recruiting apprentices.
- Will the government fund employers direct?
- What will the impact be on providers?
- BIS believes that only a small number of employers have apprentices (5%) so it is not a big job to contract with employers directly – though the aim is to include more employers in the future.
- What about the timeline for writing the new apprenticeships, is this a realistic timescale?
- Quality – the government will guarantee, but how will this work.
- There is more to come with the consultation on apprenticeship funding due for release (consultation close 25 September).
- It is understood that there are 86,000 fewer 16-18 apprentices in place for the 2013/14 academic year.

Funding

A copy of the slide presentation was handed out and the following was specifically noted:

- Page 2 – This provides a summary of student numbers. Key band for the college is band 4 as anything under 540 hours will not be funded on a fulltime basis in 2015/16.
- Page 3 – Explains what will happen in relation to funding and programmes with hours of between 450 and 539 hours.
- Page 4 - Summarises the other elements of the funding formula. Disadvantage is new for this year.
- Retention is going to be critical in relation to funding going forward with 50% of funding lost for non completers.
- Page 6 – Summarises the high needs ALS and the top up facilities. The Director of Finance confirmed that for the college the top up received is approximately £1 million from the Local Authority and this represents 165 learners with high needs.
- Page 7 – Summarises what is funded both in terms of hours and qualification hours.
- Page 8 – Summarises the funded non qualification hours.
- Page 9 – Summarises what is not funded.
- Pages 11 & 12 – Summarises the adult funding formula for 2013/14 and the funding approach.

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- Page 13 – Provides full detail of the funding rates.
- Page 14 – Summarises the interim position.
- Page 15 – Summarises the changes to learner support.

Members reviewed the content of the information provided and discussed the position informally. All agreed that it had been useful and very timely to bring this update to the Board. The Committee indicated that yet again the sector environment is changing quickly and although badged as 'simplification' it is in real terms becoming more and more complex.

AGREED: To note the content of the presentations provided.

(John Tomlinson left the meeting at 5.45 pm)

13.33 INTERNAL AUDIT

1) Annual report 2012/13

Louise Tweedie introduced this item and confirmed that the report provides a year end summary for the period ending 31 July 2013. She confirmed that the document provides a summary of work done and an overall opinion. Members' attention was drawn to page 19 and paragraph 2.2 which confirms a clean internal audit opinion for the year. Auditors are satisfied that sufficient internal audit work has been undertaken to allow them to draw a reasonable conclusion on the adequacy and effectiveness of the college's arrangements. For the 12 months ending 31 July 2013 based on the work they have undertaken in their opinion the college has adequate and effective management and control processes to manage the achievement of its objectives.

She explained that the remainder of the report summarises the work done in year, all of which have been reported to this Committee. Pages 23 and 24 provide a summary of the opinions given.

AGREED: To note the content of the Internal Audit annual Report 2012/13.

2) Internal Audit Progress Report 2013/14

Louise Tweedie introduced this item and confirmed that it was very early in the year but confirmed that the draft report in relation to Governance and Risk Management Accountability review has been issued today. This will be ready for review by the Committee at its meeting in February.

AGREED: To note the content of the update provided.

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13.34 EXAMPLE REPORT FORMAT

Louise Tweedie indicated that following comments made at the last Audit Committee meeting, she and the team had mocked up some alternative versions of reports to try and streamline information presented. Governors reviewed the examples provided and felt that the shorter format utilised was more succinct and provided greater clarity. The Audit Committee was supportive of the utilisation of the new format in future reports.

AGREED: To approve report writing format change in relation to internal audit reports.

13.35 PROGRESS AGAINST INTERNAL AND EXTERNAL AUDIT RECOMMENDATIONS

The Director of Finance introduced this item and confirmed that his report had been streamlined (that being said it was noted that a number of pages were missing from the spreadsheet at appendix a, a full copy of the document was provided to governors).

He confirmed that audit recommendations had been broken down into year groups.

- 2009/10 academics staff utilisation – one recommendation remains outstanding with work in place to try and address this. He confirmed that register reporting for 2013/14 had now commenced and is showing some improvements on the same period last year. There are currently 18% of registers which are past their start date and not been marked. The 18% that have not been marked are under investigation, however the team has not yet completed the work on teaching logs.
- 2011/12 four actions remain outstanding and these relate to the learner journey and network security and access controls. In relation to the learner journey it was confirmed that ALS and learner voice strategies have been updated but that the student support strategy is subject to further revision at the request of the executive. In relation to the network security and access controls members attention was drawn to the blue text of the spreadsheet which updates on the current position.
- 2012/13 twelve actions remain outstanding. It was acknowledged that the number outstanding at the June meeting (43) was high because the Committee had had a glut of reports at the actual meeting. It was confirmed that by spreading the meeting dates more evenly in 2014 it was hoped that this situation would be avoided in the future.

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In terms of external audit recommendations it was noted that from the 2011/12 year one action remains outstanding. The Director of Finance confirmed that the college is in a process where it is trying to improve its fee collection in college although there are still some areas to address. It was acknowledged that collecting employer fees going forward is going to be crucial. It was explained that because of further improvements required this item has been left on as 'outstanding'. This is a cautious approach as the measures required are to strengthen current processes.

AGREED: To note the content of the update provided.

13.36 **2012/13 DRAFT MEMBERS REPORT AND DRAFT FINANCIAL STATEMENTS**

The Director of Finance introduced this item and confirmed that KPMG in their earlier item had pulled out some of the detail referred to. He confirmed that the report presented was very much in draft with some minor changes anticipated prior to finalisation and presentation to the full Board at its meeting in December. He confirmed that the report follows the standard format that governors will be familiar with. Members reviewed the draft document and made the following comments:

- Page 15 – It would be very useful to include a reference to the LEP as a partner.
- Page 17 – Internal Auditors should be described as Baker Tilly not RSM Tenon. Perhaps there is a need to explain the merger which took place in year.
- Page 19 – Diana Meale should also be shown as a member of the Standards Committee.
- Page 30 – This summarises the income and expenditure position.
- Page 32 – Summarises the balance sheet as at 31 July 2013.
- Page 34 onwards – Gives the detail of the notes to the account.
- Page 42 – The final paragraph should read 'the members of the Corporation other than the Principal and the staff members' – an `s` to add to the word member.
- Page 47 – £777k underperformance as compared to the allocation provided, this will be paid back to the SFA in January 2014. Members discussed the level of trade debtors detailed and questioned whether this was right. The Director Finance felt that the £348k was in the wrong place. It was agreed that he would review and if appropriate move to accrued income.

Subject to the minor amendments discussed members were happy that the document provided an accurate reflection of the college's activity for the last academic year. It was noted that the report would be presented to the Finance Committee for review and thereafter finalised ready for presentation to the Board in December.

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AGREED: To approve the content of the 2012/13 draft Members Report and draft Financial Statements.

13.37 AUDIT SERVICES ADDITIONAL NON AUDIT WORK UNDERTAKEN IN 2012/13

The Director of Finance introduced this item and confirmed that during the 2012/13 financial year additional work was commissioned through the external audit service:

- Employment status review and advice – £2,500
- VAT advice and liaison with HMRC in relation to the treatment of the Pearson in Practice dowry payment (via Vision Workforce Skills) £6,500.
- Financial and commercial due diligence in respect of the asset transfer agreement between Vision Workforce Skills and Pearson in Practice (via Vision Workforce Skills) £122,751.

He confirmed that all appointments were subject to the college financial regulations requiring that appropriate value for money is secured. It was acknowledged that, in the case of the due diligence engagement, the Board was informed of the short notice appointment. Members acknowledged that whilst the fee incurred was high it had to be taken in the context of a £13 million deal.

AGREED: To note the content of the report provided.

13.38 RISK MANAGEMENT

In the absence of Louise Knott the Director of Finance introduced this item and drew members` attention to the following:

- Some significant changes have been made to the college`s risk environment. As a result of a number of factors including the self assessment process, the financial results and progress made against the key actions identified within the register.

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Additions

- Vision Workforce Skills has been added to the register at risk priority three.
- A contingent risk related to the subsidiary companies is now included at priority nine.

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Upgrades to risk scoring

A number of risks have been upgraded:

- 1) Quality of teaching, learning, training and assessment and the quality of the learner experience (from priority three to one). It was explained that this was as a result of the SAR process.
- 2) Work Related Training is now one risk and is contained at priority two – this is moved down from one for 16-18 year olds and moved

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from ten to two for adult work related training. All acknowledged that this was the biggest risk area for the college at the current time.
3) Financial stability (from priority eight to four).

Downgrades to risk scoring

A number of risks have been downgraded:

- Data usage - from priority five to seven
- Curriculum planning - from priority four to eight
- Studio school - from priority two to nine

The most significant risks to which the college has been exposed have now been included as part of the introductory pages to the register. There has been one minor change to risk scoring on the subsidiary company registers and this relates to staffing at VWS.

Members reviewed the content of the report and noted that Andrew King has now been appointed as Director of Strategy and Innovation. In reviewing amendments to the register governors all agreed that they had found it incredibly useful to have everything highlighted in yellow that was a change.

Members` attention was drawn to page 108 which is the KPI register. The Director of Finance expressed the belief that some risks would soon be downgraded, but that any in relation to quality would not change in year as they relied upon the end of year performance position.

In reviewing the KPI register at page 129 members expressed some concern that employer satisfaction was only 80%. Governors felt that 20%, (if correct) was a high rate of 'dissatisfaction' or 'not satisfied'. It was agreed that the Director of Finance would check the statistics and if correct give some explanation at the next meeting as to why employer satisfaction is only at 80%.

Dir of Fin

Feb 2014

AGREED: To note the content of the report provided.

13.39 ANTI FRAUD AND CORRUPTION REPORT 2012/13

The Director of Finance introduced this item and drew members` attention to a number of items:

- The introduction of the Bribery Act 2010 for which the college did some work with staff and governors over the course of the last 18 months, further legislative responsibilities of colleges to make sure that staff and governors are aware of risks of bribery both perceived and actual and provides for a college policy which guides individuals to an appropriate response to such matters.
- The adoption of the policy for the college groups` latest subsidiary, Vision Workforce Skills ensures that the group now has a consistent policy in place across all of the organisations.

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- In addition the college carries out extensive work with its partner delivery programme and has included a section on anti corruption within the terms of its standard partner delivery contract that has been the subject of legal advice and review.
- During 2012/13 there were no reported or suspected cases of fraud or irregularity through the college or college group with whistle blowing procedures that require the delivery of the fraud response plan.
- Following the end of the 12/13 financial year the college has not seen any referrals relating to fraud or irregularity. However, there remains a need to respond quickly and comprehensively to allegations of fraud and as a result the fraud risk register has been reviewed and updated to reflect the more recent non financial nature of reported incidents.

AGREED: To note the content of the update provided.

13.40 DRAFT AUDIT COMMITTEE ANNUAL REPORT 2012/13

The Clerk to the Corporation presented this draft document and confirmed that it was in a standard format utilised in prior years. It was acknowledged that this format would change for the next academic year given the JACOP requirements. Members reviewed the content and agreed that it was an accurate reflection and summary of the years work.

AGREED: To approve the Audit Annual Report for 2012/13.

13.41 AOB

There were no items of additional business.

13.41 DATE OF NEXT MEETING

The Clerk to the Corporation confirmed that the next scheduled meeting was 13 February 2013.

Meeting closed at 6.40 pm.

Signed : _____Chair

Date: