

Minutes of the meeting held in the Board Room at the Derby Road site on Friday 8th July 2016 at 2.00 pm

BOARD MEMBERS PRESENT: David Overton, Chair
Chris Winterton
Neil Robinson
Darren Wilkinson

ALSO IN ATTENDANCE: Andrew Martin, Deputy Principal/Director Finance
Louise Knott, Director of Communications, Marketing and Learner Engagement
Tom Stevens, Executive Director Capital Projects and Estates
Maxine Bagshaw, Clerk to the Corporation
Alasdair Colston, KPMG
Louise Tweedie, RSM

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

	ACTION by whom	DATE by when
<p>16.23 <u>DECLARATION OF INTERESTS</u></p> <p>The Chair reminded those present to declare at the start of the meeting any interests in matters to be considered. No interests were declared.</p>		
<p>16.24 <u>WELCOME INTRODUCTIONS AND APOLOGIES FOR ABSENCE</u></p> <p>Apologies for absence were received from Jamie Fryatt, Diana Meale and Dame Asha Khemka. Alasdair Colston was welcomed to his first meeting on behalf of KPMG.</p>		
<p>16.25 <u>MINUTES OF THE AUDIT COMMITTEE MEETING HLED ON 14TH APRIL 2016</u></p> <p>The minutes were reviewed and agreed as an accurate record.</p> <p>AGREED: to approve the minutes of the meeting held on 11th February 2016.</p> <p>In terms of matters arising, the Committee were advised that the suppression system will be installed and work completed within the next few weeks.</p>		

Signed : _____ Chair

Date:

15.26 INTERNAL AUDIT REPORTS

1) GOVERNANCE

Internal auditors presented this item and drew members' attention to page 3 of their report, which is the conclusion. They tested 10 samples of the code provisions and were happy that there was clear evidence of compliance and as a result a substantial green RAG rated assurance has been provided. Members' attention was drawn to page 4 and the one house keeping recommendation made, this is that the Clerk to the Corporation undertake a full self-assessment against the AOC Code of Good Governance which will identify any gaps and explain how these will be addressed.

AGREED: to note the content of the report provided.

2) IT

Internal auditors presented this item and confirmed that their work here was a high level advisory review. The objective of the 'IT general controls health check review' was to assess the risk processes and controls commonly associated with the IT control framework, to consider the adequacy of internal controls, processes and procedures governing the IT control framework and operating environment and to identify areas of immediate risk to the College where improvements would benefit the control framework.

Members' attention was drawn to page 3 and the one advisory recommendation made. It was explained that the College has not undertaken a formal business impact analysis review. Management have confirmed that they will ensure that a structured business impact analysis is conducted to identify a recovery objective matrix (such as the maximum total downtime that the College can bear for loss of different services/facilities). This would then be used to prioritise recovery of IT assets in order to align the recovery with the business and operational priorities of the College.

AGREED: to note the content of the report provided.

3) PROGRESS REPORT 2015/16

Internal auditors confirmed that they have been able to deliver all audit work as planned and all reports for the 15/16 year have been presented to the Committee. In total 9 areas have been audited, of which 4 were green, 2 were amber/green, 1 amber/red (learner number system study programmes) 1 advisory and the follow up work which shows adequate progress.

AGREED: to note the update provided.

Signed : _____ Chair

Date:

16.27 **COMPOSITE COLLEGE RECOMMENDATIONS REPORT**

The Deputy Principal introduced this item and confirmed that in terms of actions outstanding:

- For 2011/12 - the gas drop system recommended is now being completed and will be in place for the end of the 15/16 financial year
- 13/14 - there is still one action outstanding although this will be closed down by the end of July 2016. All procedures for starters, leavers and amendments are confirmed as complete. Payroll procedures for starters and leavers are complete with further elements of amendments being added as each amendment type arises.
- 14/15 – the Deputy Principal explained that good progress has been made albeit that the College is still having some teething problems regarding the new payroll system. He provided assurance that the team are working on this and there is confidence that they can be resolved.
- 15/16 – there are a total of 9 recommendations outstanding for the year with good progress made. 5 are medium and 4 are low. He explained that for many of these they were not actually in fact due yet and there was confidence of good progress.

AGREED: to note the update provided.

16.28 **INTERNAL AUDIT STRATEGIC PLANNING AUDIT NEEDS ASSESSMENT FOR 2016/17**

Internal auditors introduced their report and confirmed that it makes proposals regarding the internal audit coverage for 2016. In developing the plan auditors have looked at previous internal audit reports and recommendations, the College’s risk register and any areas of concern identified by management. The document comprises an annual plan for 15/16 and a 3 year strategy, albeit that the latter is very flexible and will respond to College needs with changes as required.

Members’ attention was drawn to appendix A which sets out the specific areas of cover planned for 16/17:

- 1) Safeguarding and Prevent
- 2) English and Maths processes
- 3) Tracking student progress
- 4) Apprenticeships -processes
- 5) Apprenticeships - costing and pricing and sales
- 6) Key financial controls
- 7) Risk management and governance
- 8) Follow up
- 9) Management activities

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The Deputy Principal confirmed that the plan has been reviewed by the Executive team and it is something that they support. In terms of the areas of focus apprenticeships are the single biggest change in the sector over recent years and the College acknowledges that it needs to have confidence that its plans are robust and built upon solid assumptions.

In relation to the Safeguarding and Prevent audit work it was acknowledged that the proposed dates in December do come with a risk that the College may have been inspected prior to that point. If this does prove to be the case then the College will review the need for this audit work. It was confirmed that the senior team have discussed carrying out this particular piece of audit work earlier in the year, however it was felt that there would be insufficient staff capacity in the early part of the academic year to address.

In terms of the importance of apprenticeship processes the Committee questioned whether the College has a 'plan B' in place if there is a political change in direction. The Deputy Principal expressed the belief that all political parties support the development of apprenticeships and therefore there is a high level of certainty that they will remain. Whether or not there is a levy is an unknown at this stage, however it still features in the media with a potential suggestion that its introduction may be delayed rather than abandoned. If the Government chooses not to operate the levy then it will mean fewer opportunities in the sector as there will be considerably less funds available to support this initiative.

In terms of the English and Maths processes it was explained that the College has changed its policy in relation to this and the internal audit work gives the senior team an opportunity to have an external review and a comparison with other Colleges in the sector.

One member of the Committee specifically raised an issue regarding the audit work regarding learner number systems (page 19 of the pack which was cross-referenced with page 2 of the minutes). Because of the potential financial impact of this it was agreed that this would be specifically covered as part of the follow up. Internal auditors provided assurance that it would be in any event, however the Committee felt that as it is so important they would like to see it referred to specifically in the internal audit plan and the need for this to be reviewed again.

The Deputy Principal indicated that it is likely that there will be even more students enrolling on Maths and English next year as the level of difficulty regarding level 2 functional skills exams has increased. This means that it is now easier for students to pass GCSE rather than functional skills. This will mean that the College has to realign its study programme delivery to enable it to be able to provide an extra hour per week to each student in Maths and English.

Signed : _____ Chair

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In terms of the apprenticeship processes all acknowledged that getting these right were fundamental to the College as it represents 40% of College income.

It was noted that the key financial control audit work will be undertaken over 3 visits.

The Committee, with feedback from the senior team, were happy that the audit plan was fit for purpose and covered key risk areas.

AGREED: to approve the Internal Audit Strategic Plan and Audit Needs Assessment for 2016/17.

16.29 KPMG 2015/16 PLANNING MEMORANDUM

KPMG introduced their report/plan and drew a number of key matters to members attention:

- Page 31 sets out the cycle of audit work and the timetable.
- Page 32 sets out their view of materiality and reporting of differences. They confirmed that College headline materiality has been set at £1,150k (this is the same as in the 14/15 year) which is 2% of forecast total revenue. In line with previous years they also proposed to report all individual adjusted and unadjusted differences (including disclosure misstatements) greater than £43k to the Committee. They will also have regard to other areas below this amount if evidence of systematic error is found or anything that is material by nature.

The Committee discussed the proposal regarding materiality and were happy that it was in line with sector expectations and previous year comparisons.

- Page 33 sets out the risk diagram.
- Page 34 raises some specific risks:
 - a) Fraud risk from revenue recognition;
 - b) Fraud risk from management override controls. They explained that it is a mandatory requirement that these two areas are reviewed and are not a reflection of concerns specific to the college.
- Page 35 sets out some other areas of risk to be reviewed, although these are not considered to be significant risks:
 - a) FRS 102 – it was explained that this year there will be significant presentational differences. Auditors will review and audit the restatement of the 14/15 opening balances. They will consider the yearend treatment of these balances to ensure FRS102 has been applied consistently and undertake a review of any disclosures to ensure compliance with FRS 102.
 - b) Pensions.
- Page 36 sets out details of the Regularity Audit.

Signed : _____ Chair

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- Page 37 is auditors' view of the Colleges ability to confirm that it remains a 'going concern'. They indicated that the expectation is that the College will be operating within its bank covenants for 15/16. It was explained that it is the group performance that is audited and no distinction is made for the group component parts or College subsidiaries.

One matter brought to the Committee's attention by the Deputy Principal was the FRS102 change regarding accrual of unused holiday entitlement. He explained that current reserves are £9.6million and that they will be £9.8million by the end of the year. The FRS102 requirement to accrue any unpaid holiday leave will have a significant impact on the College circa £660k and this figure will be deducted from College reserves. The Deputy Principal confirmed that he has already spoken to the bank regarding how this will impact upon future covenants and is in dialogue to see how any areas of risk can be mitigated regarding what is simply a process change that has been imposed as a result of FRS 102.

It was confirmed that gift aid from BKS B is not taxed. The Deputy Principal indicated that in any event this will be offset by carried forward losses from VWS.

- Page 42 – this sets out details of audit fees which are in line with the tender.
- Page 44 confirms auditors' independence.
- Page 47 provides an FE sector update.

One risk in the sector is the Area Review process and any outcomes that may arise. In our case it is not expected that there will be significant change in the College's position as the area review process does not commence until November 2016. In some other colleges/areas it is anticipated that it may make the going concern review more of an issue and a challenge.

The Committee agreed to note the content of the plan provided and were happy that it covered identified audit needs.

AGREED: to approve the KPMG 2015/16 Plan and Memorandum.

16.30 RISK MANAGEMENT

1) ANNUAL REPORT ON RISK MANAGEMENT ACTIVITY FOR 2015/16

The Director: Communications, Marketing and Learner Engagement introduced this item and confirmed that in terms of Executive ownership each risk is assigned an Executive owner and the Executive team consider the risk register and changes to the risk environment on a termly basis. Items contained within the significant risk register are considered by the Executive team on a regular basis and at least termly.

Signed : _____ Chair

Date:

Members' attention was drawn to appendix 1 which details how each risk has been monitored throughout the year by the Corporation Board and each Committee of the Board. Members will note from this assessment:

- a) Significant risk register – all significant risks on the register have been monitored at least once by the Corporation Board or their Committee owner. In most cases significant risks have formed a standing item either on Corporation Board agendas or on standing Committee agendas.
- b) Contingent risk register – risks identified within the contingent risk register have been monitored by the Corporation Board or its Committee at least once during the year with the exception of data protection which has not formed an item on any of the Corporation Board or its Committees. It was explained that this area was subject to internal audit in 13/14. It was agreed that there was a benefit in having a data protection report included within the audit planner for 2016/17 (December 2016).

Director
Comms,
Marketing,
LE

Dec. 2016

In terms of achievement against targeted mitigated risk scores it was explained that:

- a) Risk scores related to the financial stability of the College, HR and positioning have decreased within the year. This is not as a result of a less turbulent financial environment for example but is the result of control over such risk demonstrated by the College throughout the year.
- b) Risks related to strategic planning have achieved their target mitigated score as a result of close working relationships with D2N2 and other partners.
- c) Property strategy risks have reduced within the year, however executive felt that the volume of work planned over the summer meant that these risks remained at a moderate level.
- d) Risk related to the external environment and work related learning have not achieved their target mitigated score, this is largely as a result of the amount and level of unprecedented change within the sector coupled with a significant level of uncertainty in relation to key aspects of Government policy such as the apprenticeship levy.

AGREED: to note the update provided.

2) RISK MANAGEMENT STRATEGY AND REGISTER FOR 2016/17

The Director of Communications, Marketing and Learner Engagement introduced this item and confirmed that the strategy remains unchanged from 15/16. In terms of the register the Executive team met on the 20th June and considered the first phase of the register which was presented as appendix 2.

Signed : _____ Chair

Date:

Members' attention was drawn to page 65 and it was explained that risk levels remain high and reflect the sector uncertainty and also the area review process. The view was expressed that the College is likely to carry high risks for the vast majority of the year.

She confirmed that in the next iteration of the register there would also include 'strategic risks', these are the ones that will really knock College plans off course if the assumptions regarding these areas of uncertainty are not correct.

In terms of the register she confirmed that there was some slight reordering in terms of the items. The risks relating to employer engagement and work related training have moved up the register.

AGREED: to approve the Risk Management Strategy and Register for 2016/17.

16.31 AUDIT SERVICE SECTOR UPDATE

Internal auditors indicated that their team have been looking at the risks associated with Brexit. It was explained that adult funding in many areas is match funded by Europe and there is an expectation that the UK funding pot will contract significantly if there is no match funding available. RSM are producing a report which will go on their website titled 'Brexit the brave new world', this will give a full summary of potential areas to monitor.

The reputation of the UK as being a welcoming place for international students is now in question.

There will be reduced ESF funding for projects, for example WNC has in the past benefited from funding to support NEET training. The impact on the broader economy will also influence public sector spending.

In general the Committee felt that there would be a different operating environment there will of course be changes challenges but different opportunities.

AGREED: to note the update provided.

16.32 GOVERNANCE ITEMS

The Clerk introduced this item and explained that it was an opportunity to review Committee performance for the year, review terms of reference, review membership and also establish a work plan for 2016/17.

The Committee generally felt that they had been able to strengthen membership in terms of skills, experience and numbers throughout the year.

Signed : _____ Chair

Date:

Attendance at some meetings still requires improvement. The scheduling of meetings was felt to be improved with 4 meetings rather than 3 during the year.

In terms of the work plan the Clerk confirmed that she had noted the requirement to add in a data protection report in December 2016.

The Committee felt that the terms of reference remained fit for purpose and did not require any changes at this time.

In terms of membership they were happy to proceed in 16/17 unchanged (albeit with the loss of Diana Meale as she completes her term of office in October). Membership for the 16/17 year would continue as; David Overton, Chris Winterton, Jamie Fryatt, Neil Robinson, Darren Wilkinson and any further member of the Corporation who may be added as required.

AGREED:

- a) to note the outcome of self-assessment process,
- b) recommend to the Board that terms of reference remain unchanged,
- c) recommend to the Board that Committee membership remain unchanged; and
- d) approve the Committee work plan proposed with the addition of a data protection report.

16.33 **AOB**

There were no items of additional business.

16.34 **DATE OF NEXT MEETING**

The Clerk confirmed that the next scheduled meeting was 1st December 2016 at 5.00pm.

Meeting closed at 3.05 pm.

Signed : _____ Chair

Date: