

Final Minutes – agreed 12th March 2021

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE

Held on Friday 4th December 2020 at 9.00am in Committee Room B Skills Park and via MS Teams

Present: Simon Enoch (Chair) Lynn Reddick (from 9.40am),

In Attendance: Frances Rutter (Principal), Maria Vetrone (Deputy Principal Finance & Resources), Mark Eagle (External Auditors MacIntyre Hudson) Mike Cheetham (Internal Auditors RSM) Sandra Dessent (Clerk)

Observer: Graeme Hodge (Support Staff Governor)

1.20	1.0 Apologies for Absence
	<p>No apologies were received; however, Lynn Reddick joined the meeting at 9.40am at which point the meeting was quorate. From 9.00am to 9.40am only discussion took place)</p> <p>With the agreement of the Chair the items were reordered and started with item 4.3</p> <p>Mark Eagle withdrew from the meeting from 10.00 to 10.30am.</p>
2.20	2.0 Declarations of Interest
	<p>Mrs Lynn Reddick declared her interest as the Director of Learning at the Orpheus Centre, a specialist provider in Surrey</p>
3.20	3.0 Minutes of the Previous Meeting
	<p>The Minutes of the previous meeting were agreed as true record and signed by the Chair.</p> <p>There were no matters arising from the previous meeting.</p>
4.20	4.0 Draft Annual Report and Financial Statements for 2019/20
	<p><u>4.1 Draft Group Financial Statements and Annual Report 2019/20</u></p> <p>The Committee received the Draft Group Financial Statements and Annual Report for consideration and with particular emphasis on; Statement of responsibilities of the Members of the Corporation, Statement of Corporate Governance and Internal Control; Statement on Regularity, Propriety and Compliance and External auditor’s opinion.</p> <p>It was noted that the Finance & General Purposes Committee had reviewed the document at its meeting of the 27th November.</p> <p>The Committee considered the report page by page and the following points of clarification/amendments were highlighted:</p>

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- Page 6 – Vision Statement – Will be changed to read update of Corporate Plan will take place in January 2021.
- Page 9 – League tables: Paragraph amended to include only the first sentence ‘Due to the COVID-19 situation, the Education and Skills Funding Agency (ESFA) cancelled the FE Choices employer and learner surveys for 2019-20’.
- Page 10 - Student Number Headcount: It was agreed to add a reference relating to 19+ devolution of AEB and the impact on student numbers in 2019-20.
- Page 15 – Student Achievements: Reference to be made to number of positive comments from NSS survey
- Page 21: Events After the End of the Reporting Period: It was agreed to add that after the reporting period up until the date of approval by the Corporation Board there were no further events that effected the balance sheet.
- Page 38 - Senior Staff Performance and Remuneration Committee: Following the amendments to the AoC Staff Remuneration Report suggested by the Finance & General Purposes Committee on 27th November it was agreed to change the Statement to read ‘complies with the AoC Staff Remuneration Code with the exception of considering and recommending the salary of the Deputy :Principal (Finance & Resources).

It was concluded that although the college performance was slightly behind the break-even budget for the year the financial KPIs remained on the whole strong and the College retained its automated financial health grade of ‘outstanding’.

The Deputy Principal (Finance & Resources) was congratulated for the presentation and clarity of the document.

Having considered the draft Group Financial Statements and Annual Report for the year ended 31st July 2020, the Audit Committee approved the report subject to the amendments as detailed above and agreed to commend it to the Corporation on 10th December 2020.

4.2 Draft Management Letter and Letter of Representation 2019/20

The Committee received the draft External Auditor’s Management letter for year ended July 2020 which confirmed audit findings and the external audit opinion along with the Letter of Representations which the Corporation was required to sign and present to the External Auditors.

The External Audit Management letter confirmed the following:

- an **unqualified opinion** in respect of the financial statements will be issued.
- there were no material weaknesses in the accounting and internal control systems identified during the course of the audit.

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- the College’s financial statements for the period under review meet the regularity requirements set by the relevant funding body.
- no inappropriate accounting policies or practices were identified.
- no instances of fraud or irregularity were found.
- no areas were identified where the College had not complied with laws and regulations; and
- there are no other relevant matters to draw to the Corporation’s attention other than those included in the Management Letter.

No recommendations were raised during the year.

With regard to paragraph 19 relating to funding bodies it was agreed that any changes up to the date of signing by the Corporation would be duly reported.

Accordingly, the Audit Committee reviewed and noted the External Audit Management Letter for the year ended 31st July 2020 and approved the Draft Letter of Representations for signature by the Corporation on 10th December 2020 on College letter head.

4.3 Post-16 Audit Code of Practice

The Post-16 Audit Code of Practice sets out assurance and accountability requirements for post-16 providers. An updated framework was published in July 2020 and was relevant to accounting periods ending on or after 1st August and therefore was required to be applied retrospectively for the year ended 31 July 2020.

The relevant changes from the previous Code of Practice were reported as follows:

1. Recognition that adult education budgets have been devolved to a number of MCAs and the GLA and that the ESFA and these devolved authorities will co-operate in respect of their audit and assurance arrangements.
2. Clarification in relation to the ESFA’s expectations regarding how providers should manage their subcontracting arrangements.
3. A reminder that internal and external audit services need to be commissioned from separate audit providers.
4. Further clarification of the ESFA’s own programme of funding validation and assurance.
5. Recognition that colleges that have registered with OfS will be required to comply with the OfS accounts direction, including the provision of an audit opinion on the appropriate use of funds.
6. A new requirement that any amendments to the standard terms of engagement for regularity assurance reviews (as prescribed in this Code) must be approved by the ESFA.
7. An update to the anti-fraud checklist.

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	<p>A copy of the revised Code of Practice was attached to the report and Page 38 was highlighted which sets out some of the characteristics of providers where the ESFA have identified regularity concerns.</p> <p>The Committee was given assurance that the college complied with the July 2020 Post-16 Audit Code of Practice.</p> <p><u>4.4 Post 16 Audit Code of Practice Regularity Questionnaire</u></p> <p>The Committee were provided with the draft Post-16 Regularity (Self-Assessment) Questionnaire for the year ended 31st July 2020. In accordance with procedure, the questionnaire had been signed by the Chief Accounting Officer and the Chair of the Corporation at the Finance & General Purposes Committee on 27th November, ahead of being presented to the Corporation meeting on 10th December 2020.</p> <p>It was noted that there were changes compared to the previous year in relation to the declaration of interest and related parties in the College’s procurement processes and procedures in place to identify fraud, theft, bribery, corruption, irregularity, or major weakness in accounting or other control frameworks.</p> <p>There were also additional questions in relation to Covid-19 and the resulting lockdown particularly around the implementation of PPN 02/20 government guidance on procurement and contractual relationships with suppliers.</p> <p>It was confirmed that there were no matters arising from the questionnaire and therefore the Audit Committee approved the completed Regularity Self-Assessment Questionnaire for the year end 31st July 2020 and accepted assurance that it was capable of supporting the Corporation’s statement on regularity, propriety and compliance in the draft Financial Statements for the year ended 31st July 2020.</p> <p><u>4.5 AoC Senior Staff Remuneration Code</u></p> <p>Following a recommendation made by the Finance & General Purposes Committee to amend the report to include further evidence of compliance with the code the Committee reviewed the revised report.</p> <p>It was agreed that the evidence provided gave assurance that the college complied with the code with the exception of considering the performance of the Deputy Principal. It was therefore agreed to record that the college’s adherence to the code was compliant except for this.</p>
5.20	5.0 Annual Reports
	<p><u>5.1 Annual Internal Audit Report 2019/20</u></p> <p>The Annual Internal Audit Report provided the Audit Committee and the Corporation with independent year-end assurances to assist the Corporation, the Principal and senior management with assurances on the adequacy of the internal control system.</p>

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	<p>For 2019-20 the internal Auditors completed the following audit assignments to inform the annual internal audit opinion:</p> <ul style="list-style-type: none"> • Quality Assurance • Key Financial Controls • Learner Number Systems • Staff Appraisals • Health & Safety • Follow up <p>A total of 16 recommendations were made, none of which were categorised as 'high'.</p> <p>The Head of Internal Audit concluded:</p> <p><i>'The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective'.</i></p> <p><u>5.2 Draft Annual Report of the Audit Committee 2019/20</u></p> <p>In accordance with the Post-16 Audit Code of Practice the Committee was presented with a report setting out its activities during the previous year and the Committee's view of its own effectiveness and how it was fulfilled in its terms of reference. It also sets out the Committee's opinion on the effectiveness of the Corporation's assurance arrangements, framework of governance, risk management and control processes for the effective and efficient use of resources, solvency of the institution and the safeguarding of its assets.</p> <p>Having reviewed the report, the Audit Committee approved the summary of the work subject to the addition of a paragraph relating to the OfS Student Data Audit and agreed to commend to the Corporation Board on 10th December.</p> <p><u>5.3 Committee Self-Assessment Report</u></p> <p>The Committee received the Self-Assessment Report for 2019/20 as part of its assessment of its performance,</p> <p>The Report set out its strengths and supporting evidence as well as areas for development and key priorities for the next twelve months, all of which were discussed and agreed by the Committee.</p>
6.20	6.0 Internal Audit and Other Reports
	<p><u>6.1 Subcontracting Controls and Certificate 2019/20</u></p> <p>Within its funding agreements for 2019/20 the ESFA included clauses and various funding rules that stipulated providers which subcontracted to a certain level of provision were required to obtain a report from an</p>

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external auditor on the arrangements in place to manage and control their subcontractors.

To that end the colleges internal Auditors were appointed to carry out the audit in June 2020. The audit was completed and a certificate provided for the college on 14th July 2020.

The audit certificate provided satisfactory assurance on the systems and controls in place to manage sub-contractors delivering adult education and training funded by the ESFA for the year 1st August 2019 to 31st July 2020, and-or for the delivery of apprenticeship starts from May 2017 for the period 1st April 2019 to 31st March 2020.

It was noted that the audit was carried out in accordance with ESFA regulations and no further work on the subcontractor audit had been carried out since the completion of the audit in July 2020.

6.2 Health & Safety

The purpose of the Health & Safety audit was to provide independent assurance that the College had appropriate arrangements in place during the Covid-19 pandemic.

The report concluded: *‘Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage the identified area are suitably designed, consistently applied and operating effectively’.*

As a result of the audit 2 low risk management risks were recommended.

The Committee asked for thanks to be extended to the Head of Health & Safety and Security for a good result in difficult circumstances.

6.3 HE ILR Data Audit Report and Covering letter

The purpose of the audit by the OfS was to gain assurance over the reporting of higher education students in the 2018/19 ILR, and to ensure the accuracy of data submitted to the OfS and the ESFA for funding and other regulatory processes.

The OfS concluded that: *‘We have not gained assurance over the systems and processes in place to compile the ILR data’ and ‘We have not gained assurance over the quality of the data in the ILR due to errors found in the detailed testing.’*

14 recommendations were suggested, 8 of high importance and 6 of lesser importance and the Committee were assured that the recommendations were being addressed. It was noted that no recommendations were outstanding from the previous year and that due to the strict and inflexible analytic practices implemented by the OfS it was important for the College to be judicious when submitting data e.g. audit trail for student enrolments.

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7.20	7.0 Follow-up Schedules
	<p><u>7.1 NESCOT Follow up Schedule</u></p> <p>The Follow up schedule set out the status of internal audit recommendations from previous year included 2019/20.</p> <p>The Committee was informed that all audit recommendations from previous years including 2019/20 had been implemented or superseded and worksheets closed with the exception of 2019/20.</p> <p>In total 16 audit recommendations had been in 2019/20, eight of which had been implemented to date by management within Learner number systems. A further six audit recommendations were in the process of implementation and two had not yet been started namely; an update of the Treasury Management Policy and the delivery of aspects of subcontracted apprenticeship provision. Revised timelines had been agreed and all these recommendations were categorised as low.</p> <p>The Committee thanked the Deputy Principal (Finance & Resources) for her hard work in ensuring that the recommendations from previous years were completed.</p> <p><u>7.2 IT Strategy Review Follow Up</u></p> <p>This report provided an update on the progress with the implementation of recommendations arising from the IT Strategy Review.</p> <p>The review was commissioned to gain independent assurances regarding the robustness of the College’s IT strategy; the status of the IT infrastructure and events leading up to the cyber-attack in October 2018 and how it was managed by the College.</p> <p>It was noted that most of the recommendations had been implemented within the timelines allocated, however there was one area of slippage relating to the re-design of the College’s network. Work had started but network issues and the impact of Covid-19 had caused delays.</p> <p>The Committee was advised that external support may be required to complete the work and IT were conducting a review of resources. However, it was estimated that completion would be around April 2021.</p> <p>The actions being taken were noted and the Committee expressed thanks to the Head of IT and his team for their hard work.</p>
8.20	8.0 Risk Management
	<p><u>8.1 Risk Management Policy</u></p> <p>The Committee received the Risk Management Policy which had been updated in November 2020 and was advised that the only change from the previous years was in the membership. It was noted that the membership was a varied mix of people who would facilitate the embedding of the policy throughout the college.</p>

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8.2 Strategic Risk Register

The Committee received the Risk Register (as of 13th November) detailing the movements in net risk and mitigating actions since the last report.

There were 26 risks, aligned with the college's strategic priorities across four categories: low risk 3, acceptable risk 11, high risk 6 and significant risk 6.

The Committee discussed the significant risks and mitigating actions that were summarised in the register and further detailed in the accompanying report. The following points were highlighted:

Risk 6 – Failure to monitor and control subcontractor contracts: It was noted that the College had complied with the ESFA regulations and the risk was not related to a failure of internal controls which made it difficult to adequately mitigate the risk.

Risk 24 – Failure to properly manage College's commercial activities: It was acknowledged that the commercial activities currently accounted for 2% of income and any loss would not significantly impact the balance sheet. Therefore, it was agreed that to amend the risk category to reflect its financial impact.

Risk 8 – The impact of Covid-19: It was agreed that although the Covid-19 risk was still high the College had performed well in difficult circumstances being one of only two colleges that had been operating full-time during this period.

The Chair commented that the Strategic Risk Register demonstrated that risk was taken seriously, especially during the last 9 months. The Register was continually changing and evidenced that the management processes in place were working.

8.3 Assurance Map

The Assurance Map plots various independent and management assurances across the College's identified strategic risks.

The framework is a structured means of identifying and mapping the main sources of assurance, and co-ordinating them to best effect. The Assurance Map at the College is a logical extension of the College's existing risk management arrangements.

The report set out the model for the Assurance Map and concluded that

The Assurance Map (November 2020 update) demonstrates that:

- The Assurance Levels are 'High' for 23 of 26 strategic risks (23 of 26 at the last report to the Audit Committee) and the Governing Body could continue to take a high level of assurance and confidence from the College's assurance framework and risk management processes.

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	<ul style="list-style-type: none"> A 'Medium' level of assurance for Risk 8; Risk 23; and Risk 26 related to the impact of Covid-19 on the College's business; adverse changes in government policy and the external environment; and the sufficiency of management capacity at the executive leadership level. These risks would benefit from additional and independent 3rd line defence assurances although this is a challenge to obtain for these risks. Risk 21 relating to the processes and systems for the management of student data. The recent OfS HE ILR Data Audit report provided no assurance. <p><u>8.4 Covid-19 Risk Register</u></p> <p>The Committee received the Covid-19 Risk Register which was compiled in a similar format to the Strategic Risk Register. It was noted that the risks were continually monitored and updated in line with changing circumstances.</p>
9.20	9.0 Fraud Report
	The Committee was informed that no incidents had been identified since the last update.
10.20	10.0 Health & Safety Report
	The report from the Health & Safety Committee for the 2019/20 summer term covered accident/incident analysis as well as an update on other health, safety, security and fire safety matters. The predominant focus was ensuring that the College had comprehensive control measures in place to maintain a safe place to work and study during the Covid-19 pandemic.
11.20	11.0 Any other Business
	There being no other business the meeting concluded at 11.30am
12.20	12.0 Confidential Performance Assessment of Auditors
	The Committee reviewed the audit performance of both the Internal and External Auditors.
13.20	Date and Time of Next Meeting: Friday 12th March 2021 at 9.00am

Decisions:

1. Agreed to commend the Group Financial Statements and Annual Report for the year ended 31st July 2020, subject to the amendments agreed at the meeting to the Corporation Board on the 10th December.
2. Reviewed and noted the External Management Letter for the year ended 31st July 2020 and approved the Draft Letter of Representation for signature by the Corporation Board on 10th December on College letter head.

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3. Approved the completed Regularity Self-Assessment Questionnaire for the year ended 31st July 2020.
4. Approved the Draft Annual Report of the Audit Committee 2019/20 and agreed to commend it to the Corporation Board on 10th December.

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Actions:

1. Amend Risk 24 on the Strategic Risk Register to reflect the low financial materiality of commercial activities at the College with a view to down grading the risk scores.