



**MINUTES OF THE AUDIT COMMITTEE OF THE
NORTH EAST SURREY COLLEGE OF
TECHNOLOGY FURTHER EDUCATION
CORPORATION HELD ON FRIDAY 01 DECEMBER
2017 AT 08.50 IN THE BOARD ROOM (SP215)**

PRESENT	IN ATTENDANCE
Ms Catherine Biscoe (Chair)	Ms Lorna Raynes – RSM
Mr Graeme Hodge	Mr Rajeev Shaunak – MHA
Ms Maureen Kilminster	Mr Shameen Rahman - MHA
Mr Peter Stamps	Ms Frances Rutter - Principal
Attendance = 100%	Ms M Vetrone - Deputy Principal, Finance & Resources Mr D Round - Clerk to the Corporation

01.17	PRE-MEETING WITH MEMBERS OF THE COMMITTEE AND AUDITORS ONLY
	A pre-meeting took place with governors and auditors only. Officers of the Committee joined the meeting.
02.17	APOLOGIES FOR ABSENCE
	There were no apologies for absence.
03.17	DECLARATIONS OF INTEREST
	Ms Rutter and Mr Stamps in attendance at the meeting, declared an interest as unremunerated directors of NBS Ltd and until recently, NCL. Maureen Kilminster reported that she is a former Principal of Brooklands College, a trustee of Surrey Lifelong Learning Network and a member of Ewell Rotary Club which is working with the College on a forthcoming charitable event.
04.17	MINUTES
	The minutes of the meeting held on 21 June 2017 were approved as a correct record.
05.17	MATTERS ARISING
	The meeting received and noted a paper (Appendix B) that provided an update about the status of matters referred from the previous meeting. All other matters were the subject of report at today's meeting. Oral update reports were given as follows: -
	37.16 Risk Management – The Jeddah College
	38.16 Risk Assurance – The Jeddah College
	The Committee noted that NBS had disposed of its interest in NCL on 17 August 2017.

06.17	DRAFT ANNUAL REPORT AND FINANCIAL STATEMENTS, 2016/17
06.1 Draft Annual Report and Financial Statement 2016/17	<p>The Committee's attention was drawn to the responsibilities of the Committee. Section 26 of the Post-16 Audit Code of Practice ('the Code') 2017 states that "The audit committee should advise the college corporation on the adequacy and effectiveness of the college corporation's assurance framework. In addition the audit committee advises and supports the college corporation in explaining, in its annual accounts, the measures taken to ensure it has fulfilled its statutory and regulatory responsibilities. The college accounts direction sets out the funding bodies' specific requirements including the required format of the college corporations' statement of corporate governance and internal control."</p> <p>The Deputy Principal explained that the draft report and financial statements before the committee were unconsolidated. This was because NCL in Saudi Arabia had yet to present their accounts to the College's external auditors for audit and consolidated into the College's accounts. The College's external auditors had been advised that the NCL accounts would be available mid-December. For this reason it had been agreed with the College's auditors and the ESFA that the Annual Report and Financial Statements for the previous year would be presented as draft to the Corporation but not signed until after the NCL accounts had been received and audited. A provisional timeline for the submission of the audited Group accounts had been agreed (early February). In the event that there were further delays the College would be required to submit the accounts to the ESFA as College accounts only and a qualified opinion would be given by the College's auditors with a note to the accounts to explain the circumstances. The implications of such a decision would be that the accounts would be qualified in 2017/18 also because the previous year comparator was not reliable.</p> <p>The opinion of the College's auditors was that consolidated accounts would not be required for 2017/18 because of the date of the disposal of NBS's interest in NCL; however, this could not be confirmed until the accounts had been reviewed to establish that there were no matters that would be material to the accounts.</p>

	<p>The Deputy Principal reported a summary of the draft accounts for 2016/17 noting as follows: -</p> <ul style="list-style-type: none"> • A surplus of £106k would be declared for the UK College's operations (£78k restated for 2015/16). • College income had increased by 14%; College expenditure had also increased by 14%. • Additional income had been secured including additional growth funding from the ESFA most noticeably in 19+ apprenticeships; additional tuition fee income from advanced learner loans in partnership with a private training provider; additional funding from local authorities for students with special needs; and donations from ICOM in recognition of the investment made by the College in the new Osteopathy clinic on campus. • The College completed its £43m investment in the College campus in 2016/17. A further £3.7m was spent in 2016-17 to redevelop other areas of the campus which required attention, and another £4m is planned in 2017-18. • The College remains financially strong. It holds accumulated reserves of £49,648k after FRS102 pension adjustments and defined benefit obligations of £7,768k. The College has cash balances of £9,903k. • The funding bodies provided 66.9% of the College's total income. • Evaluation by the ESFA of the College's forecasts indicated that the College used robust forecasting techniques and that the key ratios going forward continued to indicate an 'outstanding' financial position. • Staff costs as a proportion of income were currently above the sector median by 2% but were due to come into line next year. The figure was, however, above that recommended by the previous FE Commissioner. • The threats to the College's strong financial position going forward included continuing under-performance against the target (3%) for profitability in the Finance strategy caused in part by uncontrollable increases in pension liabilities, rising staff costs, increased depreciation costs for the College estate and flat-lining student recruitment. The view of the Deputy Principal was that the current position was unsustainable in the longer-term. <p>RESOLVED: that the Audit Committee wishes to draw the attention of the Finance and General Purposes Committee to the</p>
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<p>06.2 Draft Management of the External Auditors & Letter of Representations</p>	<p>threats to the College's financial position going forward and recommends that the report be presented to the Corporation (ACTION: MV/DR).</p> <p>The Committee discussed whether a specific note regarding the risks associated with the ET case should be included in the Annual Report and Financial Statement. The advice of the external auditor was that this was not necessary on the basis of the legal advice received.</p> <p>The Committee was advised that a further meeting of the Committee, possibly to take place concurrently with F&GP, would be held in the New Year when the draft Group Accounts were available (ACTION: DR/MV).</p> <p>The Chair of the Committee advised that she had proposed that an additional note be added to the Annual Report and Financial Statements regarding the disposal of the interest in NCL. She has also suggested a number of smaller changes to the Deputy Principal.</p> <p>RESOLVED: subject to the noted amendments and review of the financial information by Finance and General Purposes Committee, that those matters with the scope of the Audit Committee in the draft Annual Report and Financial Statements 2016/17 be approved and commended to the Corporation.</p> <p>The draft management letter of the external auditors was presented to the Committee by Mr Shaunak. He drew attention to the qualified opinion that would be given because of the failure of NCL to provide accounts for audit in time to permit the production of audited consolidated accounts for the meeting and to meet the filing deadline. The re-statement of the 2015/16 accounts owing to prior-year adjustments/accrued costs in respect of the late-invoiced Kingston University capitation fees paid in 2016/17 was noted and accepted as the transaction was not material. He also noted that the accounts process for the College had gone smoothly. The highlights of the financials relating to 2016/17 were noted in the report.</p> <p>The Committee was also advised that the follow-up actions arising from recommendations made in last years' management letter (old cheques reconciliation and deferred capital grants) had been confirmed as resolved.</p>
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<p>06.3 Draft Post-16 Audit Code of Practice Regularity Questionnaire</p>	<p>The draft letter of confirmation of representations to be signed by the Chair of the Corporation and the Principal as the Accounting Officer was received.</p> <p>RESOLVED: that the Audit Committee notes the management letter of the external auditors and the letter of representations.</p> <p>The draft Post-16 Audit Code of Practice Regularity (Self-Assessment) Questionnaire was presented to the Committee by the Deputy Principal. The Committee must be satisfied that the completed self-assessment questionnaire is capable of supporting the Corporation's statement on regularity, propriety and compliance in the draft annual financial statements for the year ended 31 July 2017. The new aspects of the self-assessment questionnaire were: -</p> <ul style="list-style-type: none"> • Annual assessment of the clerk's performance to support the governance function. • Agreement and settlement of employment claims brought by any employee. • Regular training of staff in the requirements of the Bribery Act 2010. • The establishment of subsidiary, joint ventures or similar arrangements. <p>The Audit Committee was assured that these requirements and those in the questionnaire as a whole were met in full and that documentary evidence was available to support the statements therein.</p> <p>RESOLVED: that the Audit Committee approves the draft Post-16 Audit Code of Practice Regularity (Self-Assessment) Questionnaire.</p> <p>The annual report of the internal auditors was received. The Internal Audit Annual Report is submitted to the Audit Committee to provide the Committee and the Corporation with independent year-end assurances which assist the Corporation in preparing its own annual Statement of Corporate Governance and Internal Control within the College's annual financial statements.</p> <p>The Committee noted the reports of the internal auditors and the opinions given on the following topics: -</p>
<p>06.4 Internal Audit Annual Report 2016/17</p>	

	<ul style="list-style-type: none"> • Health & Safety • Risk Management and Corporate Governance • Financial Planning and Budget Setting • Subcontracting Controls • Key Financial Controls • Learner Number Systems • Estates Management • Commercial Activities <p>The Committee was assured that good progress had been made in addressing recommendations in the reports.</p> <p>The Head of Internal Audit gave the following opinion in relation to 2016/17 audit work</p> <p style="padding-left: 40px;">‘The organisation has an adequate and effective framework for risk management, governance and internal control.</p> <p style="padding-left: 40px;">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.’</p> <p>The Audit Committee noted the Head of Internal Audit’s opinion for 2016/17.</p> <p>06.5 Draft Annual Report of the Audit Committee</p> <p>The draft annual report of the Audit Committee for 2016/17 was received. The Clerk noted that the gaps in the report would be added to take account of matters discussed at the meeting i.e. the audit opinion of the auditors and the proceedings of the meeting. The updated draft would be circulated to members by email.</p> <p>RESOLVED: that following email circulation and subject to further review of the updated draft by members of the Committee, that the draft annual report of the Audit Committee be approved.</p> <p>06.6 Fraud Report</p> <p>As agreed at the previous meeting when reviewing the Committee’s terms of reference, an oral report on any matters of fraud or irregularity was given. The Deputy Principal confirmed that no matters of report had been identified.</p>
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07.17 INTERNAL AUDIT ASSIGNMENT REPORTS	
07.1 Commercial Activities	<p>The report of the internal auditors on the College's commercial enterprises was received. The report was 'advisory' in scope and was designed to provide the Audit Committee and the Corporation with independent assurance that the College's arrangements for the commercial hair salon and the Le Raj Academy are adequate and effective. The report was advisory because commercial activities currently represented less than 2% of total income of the College and the two enterprises were in their first year of operation.</p> <p>The report raised 10 audit recommendations in total, with one 'High' level recommendation and six 'Medium' level recommendations relating to business planning and marketing; documented policies and procedures for commercial operations; governance and strategic management; performance management and reporting. The Deputy Principal commented that the report was very helpful and it highlighted the work required to formalise business planning processes, improve the marketing of College enterprises and the need to develop robust financial reporting procedures, business targets and KPIs. The reporting of Le Raj and Innovations would be incorporated into enhanced management accounts to provide greater visibility to governors. There was discussion about the current status of the two commercial projects and the changes being considered to make them more effective.</p> <p>It was confirmed that the report would be taken to F&GP and the Corporation at meetings later in the month. The Chair requested that advice be taken on the issue of Corporation tax and VAT and be reported to the Committee (ACTION: MV).</p> <p>The report on Commercial activities was noted.</p>
07.2 Estates Management	<p>The report on Estates Management was received noting that the opinion given was that 'Taking account of the issues identified, the Board can take reasonable assurance that the controls in place to manage this risk are suitably designed and consistently applied. However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified risk(s).' The report identified 3 medium and two low priority risks. The medium risks related to (i) the absence of performance reviews for 3 contracts; (ii) the estates strategy did not contain key performance indicators or milestones against which the College would be able to measure performance; and (iii) 2 contract</p>

07.3 Progress Report of the Internal Auditors	<p>SLA were not signed. The report found evidence of 7 areas of strength where effective controls were in place.</p> <p>The Deputy Principal advised the Committee that the College had commissioned a specialist property management company to update the Property management strategy for the College as part of a 10 year plan. The Committee was also advised that the new Estates Manager had left the College after 5 weeks in post.</p> <p>The audit report on Estates management was noted.</p> <p>The internal auditors advised that the report on GDPR had been moved back in the timetable and would be reported to the summer term meeting.</p>
08.17	FOLLOW-UP SCHEDULE OF INTERNAL AUDIT RECOMMENDATIONS
	<p>The Committee reviewed progress in implementing recommendations arising from internal audit reports. All recommendations arising from reports in 2013-14, 2014-15 and 2015-16 had been implemented or superseded. For the previous year 2016/17 30 recommendations had been made of which 17 have been implemented by management. 13 audit recommendations are in the process of implementation in the areas of Estates Management (specifically related to the preparation of an updated Estates Strategy and the management of contractors); and Commercial Activities (related to more formal and documented governance, management and reporting arrangements). A detailed progress report on all recommendations was made available to members of the Committee.</p>
	<p>The report on the follow-up schedule of internal audit assignments was noted.</p>
09.17	COMMERCIAL ACTIVITIES – GOVERNANCE ARRANGEMENTS
	<p>It was noted that progress reports on College enterprises would be reported to the Growth Committee and then through to F&GP Committee. A summary update would be provided to the Corporation.</p>
10.17	RISK MANAGEMENT REPORTS
10.1 Risk Register	<p>The Committee reviewed the Strategic Risk Register. It was noted that there were 23 net risks in the current report compared to 25 last time. Of these 10 were significant risks and 6 high risks. The risk profile continued to be high in part reflecting the external FE environment.</p>

	<p>There was discussion of the significant risks noting any movements in the assessment of net risk.</p> <table border="1"> <thead> <tr> <th>RISK</th><th>UPDATE</th></tr> </thead> <tbody> <tr> <td>Risk 4 - Failure to achieve funding body and apprenticeship recruitment targets may lead to significant reductions in funding.</td><td>The pre-census date drop-out rate for FE had fallen from 13% last year to 8% this year.</td></tr> <tr> <td>Risk 23 - Failure to properly manage the Government's reform of Apprenticeship provision and funding.</td><td>Recruitment of apprentices with non-levy employers was slightly down but 22 levy-paying employers had been recruited.</td></tr> <tr> <td>Risk 15 - Failure to develop and implement effective and robust business plans for international business</td><td>NBS had disposed of its interest in the Saudi project leaving the focus in international activities on Italy. The Balkan project had not been successful.</td></tr> <tr> <td>Risk 16 - Failure to achieve and maintain a fit for purpose estate and facilities, IT infrastructure and learning resources.</td><td>There was a concern about the fitness for purpose of the College finance system which was ageing.</td></tr> <tr> <td>Risk 19 - Adverse changes in government policy and the external economic environment.</td><td>The College employed relatively few European staff and was therefore not likely to be heavily impacted upon by Brexit.</td></tr> <tr> <td>Risk 8 - Failure to sustain 'good' or better teaching, learning and assessment in FE provision, and maintain confidence in HE provision as assessed by the QAA, may lead to poor student retention and success, reduced student recruitment, reduced funding and damage to reputation.</td><td>The adverse QAA report had materialised this risk and could have an impact upon HE student recruitment. The Principal was considering making an appeal to QAA but the key factor was to learn from previous errors.</td></tr> </tbody> </table>	RISK	UPDATE	Risk 4 - Failure to achieve funding body and apprenticeship recruitment targets may lead to significant reductions in funding.	The pre-census date drop-out rate for FE had fallen from 13% last year to 8% this year.	Risk 23 - Failure to properly manage the Government's reform of Apprenticeship provision and funding.	Recruitment of apprentices with non-levy employers was slightly down but 22 levy-paying employers had been recruited.	Risk 15 - Failure to develop and implement effective and robust business plans for international business	NBS had disposed of its interest in the Saudi project leaving the focus in international activities on Italy. The Balkan project had not been successful.	Risk 16 - Failure to achieve and maintain a fit for purpose estate and facilities, IT infrastructure and learning resources.	There was a concern about the fitness for purpose of the College finance system which was ageing.	Risk 19 - Adverse changes in government policy and the external economic environment.	The College employed relatively few European staff and was therefore not likely to be heavily impacted upon by Brexit.	Risk 8 - Failure to sustain 'good' or better teaching, learning and assessment in FE provision, and maintain confidence in HE provision as assessed by the QAA, may lead to poor student retention and success, reduced student recruitment, reduced funding and damage to reputation.	The adverse QAA report had materialised this risk and could have an impact upon HE student recruitment. The Principal was considering making an appeal to QAA but the key factor was to learn from previous errors.
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	<p>The Chair initiated a discussion about how the Committee could be assured that the actions being taken were having an effect and how this Committee received assurance from other Committees. The Deputy Principal commented that the risk register at NESCOT was very transparent; the assessment of risk an honest evaluation of its current status; and that the Committee's role was to challenge management on the effectiveness of the mitigating actions. The commentary in the register and the indicated movements gave the Committee a summary of the actions being taken and whether they were working. The Strategic Risk register was taken to the Corporation as were the minutes of the Audit Committee and the other Corporation Committees. The question was asked: should the risks be assigned to the appropriate Committee to own?</p> <p>Following further discussion, it was AGREED that the Chairs of the Committee be requested to comment at Corporation meeting on areas of risk identified in the Strategic Risk Register that were relevant to their terms of reference (ACTION: DR/MV).</p> <p>10.2 Risk Assurance Framework</p> <p>The updated risk assurance map was presented to the Committee noting the levels and nature of assurance provided to the Committee by management, scrutiny by the Corporation and its Committees and finally from external bodies such as auditor, regulatory bodies and other agencies. There was a high level of assurance provided in most risk areas except for (i) adverse changes in government policy and the external economic environment; (ii) Loss of reputation from current media interest; and (iii) failure to properly manage the Government's reform of Apprenticeship provision. The Committee discussed the high level of assurance in the report and re-iterated its role in challenging the assurances given.</p>
11.17	<p>HEALTH AND SAFETY REPORT</p> <p>The report of the Health and Safety Manager was presented. This was the first report of the new Health and Safety Manager. The Committee had asked at the previous meeting for assurance about the fire risks of the cladding used on College buildings. The independent assessment showed that the cladding in use met either the highest level of non-combustibility (Class A1) or the third level of seven for non-combustibility (Class 0).</p>

College Building	Cladding Fire Rating¹	Insulation Fire Rating
Central and West Wing	A1	A1
Link Bridge	Class 0	A1
Skills Park	Class 0	A1
BEB	Class 0	A1

Attention was also drawn to the College's fire safety strategy which included a robust fire alarm system, sufficient fire escape routes for the number of occupants and trained fire wardens and fire marshals.

A report on the fire evacuation drill undertaken on 4th October was given noting the learning points identified and resultant actions. Members of the Committee noted the concerns outlined by the Student Governors at the last Corporation meeting and were assured that the drill had gone smoothly. Details of fire alarm activations that had taken place in the year were given. A departmental safety inspection had taken place in the Sports Centre and an action plan agreed.

There was discussion of the Environmental Health visits and the actions being taken in the light of the adverse report with the College's external catering contractor.

Accident and Incident statistics were presented. At the next meeting comparative data would be presented.

The report of the Health and Safety Manager was noted.

12.17	COMMITTEE SELF-ASSESSMENT
The Committee self-assessment report was approved.	
13.17	ANY OTHER BUSINESS
There was no further business.	
14.17	DATE AND TIME OF NEXT MEETING
The next meeting of the Audit Committee would take place on 16 March 2018 09.00. It was noted that the Clerk, in consultation with the Chair and Deputy Principal, will call a special meeting to approve the Group Annual Report and Financial Statements when available (ACTION: DR/CB/MV).	

¹ A1 Non-Combustible; A2 Limited Combustibility; Class 0 (Euroclass B); Class 1 (Euroclass C); Class 3 (Euroclass D)

15.17	CONFIDENTIAL ITEMS
The representative of the Audit firm withdrew from the meeting at this point.	

Signed Date

Catherine Biscoe, Chair of the Audit Committee

Author	David Round
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