



**MINUTES OF THE AUDIT COMMITTEE OF THE
NORTH EAST SURREY COLLEGE OF
TECHNOLOGY FURTHER EDUCATION
CORPORATION HELD ON FRIDAY 02 DECEMBER
2016 AT 09.00 IN COMMITTEE ROOM A (SP215)**

PRESENT	IN ATTENDANCE
Ms Catherine Biscoe (Chair) Ms Joanna Lloyd Ms Maureen Kilminster Ms Yasmeen Malik Attendance = 100%	Mr Mike Cheetham – RSM Mr Cliff Hall - Head of College Mr Rajeev Shaunak - MHA Ms M Vetrone - Deputy Chief Accounting Officer Mr D Round - Clerk to the Corporation

Provision was made for a confidential meeting of members of the Committee and the auditors. It was agreed that there were no matters that required discussion.

01.16	APOLOGIES FOR ABSENCE
No apologies were received.	
02.16	DECLARATIONS OF INTEREST
Joanna Lloyd declared a family connection with the Principal of Burton and South Derbyshire College, that College being a shareholder in the Saudi Arabia project. Cliff Hall, in attendance at the meeting, declared an interest as an unremunerated director of NBS Ltd and NCL. Maureen Kilminster reported that she is a former Principal of Brooklands College.	
03.16	MINUTES
The minutes of the meeting held on 24 June 2016 were approved as a correct record.	
04.16	MATTERS ARISING
The meeting received and noted a paper (Appendix B) that provided an update about the status of action items referred from the previous meeting. An oral update report was given as follows:	
47.15 Internal Audit Strategy It was reported that the College had taken advice in relation to the taxation and VAT implications of increased commercial activities. The internal auditors had advised that the Skills Park activities had a 'primary purpose' in education and training and that Corporation tax and VAT liabilities would not be incurred. Comparator institutions had	

been consulted. This area would be the subject of an audit assignment this year where these matters would be looked into in detail.

49.15 Saudi Project Reporting Standards and Governance

It was noted that the recommendations of this Committee had been referred to NBS and raised with NCL. The College was continuing to pursue the agreed strategy.

55.15 Terms of Reference and Cycle of Business

The revised terms of reference and cycle of business had been approved by the Corporation at its July meeting.

05.16

AUDIT REPORTS FOR THE YEAR ENDING 31 JULY 2016

EXTERNAL AUDIT

05.1 Draft Financial Statements 2015/16 (Appendix C)

Members of the Committee were reminded that their role was to consider the Annual Report of Members and the Financial Statements focusing in particular on

- The statement of the responsibilities of the Members of the Corporation
- The statement of corporate governance and internal control
- The statement of regularity, propriety and compliance
- The external audit opinions.

The Finance and General Purposes Committee was due to review the financials at its meeting on 06 December and to receive any comments from the Audit Committee.

In assembling the financial statements attention was drawn to the following: -

1. The statements were the first to reflect in full the requirements of the new accounting standards, FRS102;
2. The accounts were Group accounts including the full activities of NCL in which NBS Ltd, a wholly owned subsidiary of NESCOL, was the majority shareholder;
3. The financial statements included a re-statement of the accounts for 2014/15 reflecting correction of the LGPS liability statements following a request to the actuaries for a review of the underlying actuarial assumptions. The external auditors confirmed that the revisions were reasonable and appropriate; and

<p>05.2 Draft Management Letter of the External Auditors and the Letter of Representations (Appendix D)</p>	<p>4. There had been a significant change in the NCL net income position between the most recent NCL management accounts and the year-end accounts. This was positive in favour of the shareholders and also reflected the currently favourable exchange rate between the Saudi Riyal and Sterling.</p> <p>The positive outcome for the year ending 31 July 2016 was noted reflecting a net income for the NESOT Group of £1,528.4k of which a surplus of £243.8k related to the UK college (compared to a balanced budget set at the beginning of the year) and £1,284.6k related to NCL of which the College would receive 60% as a dividend. The balance sheet was strong; the cash position was healthy. The SFA assessment of the financial health of the College remained 'Outstanding'.</p> <p>The Committee APPROVED the Report and Financial Statement for the year ending 31 July 2016 subject to the following amendments: -</p> <ol style="list-style-type: none"> 1. Corporation Members List and Attendance Records – page 25: to note amendment to the resignation date of Ms Sunaina Mann 2. Note 28 – amendment to related party transactions 3. To insert details of the recommendation of the Area-based Review for Surrey. <p>Mr Shaunak from the College's external auditors MHA presented the Management letter to the Committee noting</p> <ul style="list-style-type: none"> • An unqualified opinion would be given in respect of the financial statement audit and regularity audit. • The additional audit assurance work undertaken in Saudi Arabia in relation to the year-end accounts of NCL had proceeded satisfactorily and the auditors were able to have greater confidence this year in the quality of the work undertaken by NCL's auditors. Substantive testing of source documents had taken place. Ernst and Young in Saudi Arabia had provided an unqualified opinion. The signed-off NCL accounts were expected to be received in the next few days. • The UK College had achieved income growth particularly in the area of apprenticeship provision • Staff costs had remained stable and within budget. • Increases in local government pension costs and employer NIC contributions were significant
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<p>05.3 Joint Audit Code of Practice (JACOP) Regularity Questionnaire (Appendix E)</p>	<ul style="list-style-type: none"> • The College was in a strong financial position as it had no debt commitments despite the significant investment in the campus in the past 36 months; the capital loan shown against NCL related to equipment purchases to deliver the CoE contract. • The auditors were content with the statement of bad debt provision. • Corporation tax was payable in respect of NCL activities. • There was no necessity for SFA clawback provision in 2015/16; however, provision would be required in 2016/17 reflecting the recent SFA funding audit. <p>The recommendations of the external auditors and the response of management were discussed including the progress of actions taken in respect of the previous year's recommendations. It was confirmed that satisfactory progress had been made although the status of the terms of the agreement of a significant NCL contractor remain unresolved. The additional audit work undertaken in relation to NCL had provided greater assurance with regard to the notes to the accounts, particularly note 7 and note 28.</p> <p>The Management Letter of the external auditors and the Letter of Representations, to be signed by the Chief Accounting Officer and the Chair of the Corporation, were received by the Audit Committee.</p> <p>The Audit Committee was required to receive and approve the JACOP Regularity Questionnaire which provided the Committee with assurance regarding the Corporation's statement on regularity, propriety and compliance in the draft report and financial statements. The Joint Audit Code now specified that the Questionnaire be 'completed and signed by the college accounting officer and the Chair of the Governors at a suitable committee meeting in advance of the reporting of the year end audit work'. Following review by the Audit Committee at today's meeting, the Questionnaire would be referred to F&GP Committee for approval and signature.</p> <p>The Committee was advised that the College's reporting accountant MacIntyre Hudson had reviewed the completed draft JACOP Regularity Questionnaire as part of their annual audit. There were no issues arising from their review.</p>
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05.4 SFA Funding Assurance Review Report, 2015-16 (Appendix F)

RESOLVED: that the Audit Committee approves the JACOP Regularity Questionnaire and commends it to the F&GP Committee for signature.

The Committee was advised that a periodic SFA funding assurance review had taken place in October 2016. The review seeks to provide assurance that the College manages effectively the key risks relating to SFA and EFA funding and that public funds have been used appropriately and for the purpose for which they were intended.

The findings of the report were discussed by the Committee who noted: -

1. Some incomplete attendance evidence to support reconciliation of the funding claimed in respect of the totality of the Study Programme for some students on part time programmes;
2. Subcontractor provision at a Provider level had exceeded the maximum values as set out in Subcontractor declarations in some instances. There were no funding implications arising from this issue; and
3. Some students in receipt of advanced learner loans on subcontractor provision had not received the SFA Funding Information letter to confirm their overall programme and loan details as required under SFA funding rules. There were no funding implications arising from this issue.

The total over claim in respect of SFA and EFA funding was £55k and £47k respectively.

The Committee commented on a discrepancy in the SFA report where it stated that following a focused resample in respect of relevant part time band students 'no issues were noted'. The College was requested to review this matter and confirm the consistency of the statement vis-à-vis the report's conclusions and financial restatements (**ACTION: MV**).

The recommendations arising from the report and the College's follow-up actions were noted. These would be subject to substantive review by the SFA's auditors in the future. The Committee noted that the over claim represented less than 0.7% of the funding claimed. The College's internal auditors

<p>06.3 Governance and Risk Management 2016-17 (Appendix K)</p>	<p>5. The College record of accidents and incidents are recorded on a database that is only available to the College Safety and Technical Coordinator which, in the event of his absence, would prevent the College being able to manage this information in respect of reporting to the Health and Safety Executive (Medium Priority recommendation).</p> <p>The College had accepted all of the report's recommendations which were noted by the Committee.</p> <p>The audit opinion was 'Amber' and provided only partial assurance to the Committee and the Corporation.</p> <p>The Committee noted with concern comparative statistics that the work place injury rate was significantly above the national average for similar educational institutions.</p> <p>Following further discussion concerning the College arrangements for health and safety management, the Committee approved the following actions: -</p> <ul style="list-style-type: none"> • That the College develops an action plan to investigate and address the large variance in the comparative work place injury statistics reported in the audit assignment. • That a follow-up audit assignment be undertaken in the current academic year to confirm the implementation of the report's recommendations; • That the College risk register be updated to reflect the higher level of risk associated with health and safety matters; and • The Committee to review the area of Health and Safety at its next meeting (March 2017). <p>It was further suggested that there could be opportunities for a shared service approach to Health and Safety with neighbouring colleges.</p> <p>The audit review of governance and risk management had resulted in a 'Green' opinion and provided the Committee and the Board with</p> <p style="padding-left: 40px;">'...substantial assurance that the controls upon which the organisation relies to manage the identified area(s) are suitably designed, consistently applied and operating effectively'.</p>
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<p>06.4 Internal Audit Progress Report (Appendix L)</p>	<p>There were no recommendations arising from the review of Governance. There was a recommendation (Low Priority) that the College updates its Risk Management policy to distinguish between the operational and strategic risk registers and the role of Risk Champion for the transfer of risks between the two registers. The College has accepted the recommendation in the report.</p> <p>The Committee noted the report on governance and risk management.</p> <p>The Audit Committee received and noted the summary report from the internal auditors regarding the progress of audit work against the agreed audit plan.</p>
<p>07.16</p>	<p>OUTSTANDING AUDIT ACTIONS UPDATE REPORT</p>
<p>Mr Shaunak left the meeting at this point.</p> <p>The report presented to the Committee detailed the progress of management actions in respect of internal audit recommendations from 2013/14 to date (Appendix M). It was confirmed that all actions for 2013/14 and 2014/15 had been completed. For the academic year 2015/16 the 18 actions (1 High Priority; 3 Medium Priority and 14 Low Priority) had all been followed-up and implemented.</p> <p>In the current year 2016/17 two audit assignments had been completed which had given rise to 10 recommendations. The single recommendation relating to Risk Management had been implemented; of the 9 recommendations arising from the health and Safety review 3 had been implemented, 5 were in progress and 1 was awaiting action (scheduled for January 2017). Members of the Committee recommended that the Safety and Technical Coordinator undertake regular walk rounds or curriculum areas with Heads of Departments. The Governing Body was now to have a standing item on Health and Safety together with Safeguarding and PREVENT at all future meetings reflecting the high priority accorded to this issue by the Chair of the Corporation. Governors could also consider Health and Safety matters as part of their curriculum 'link' visits.</p> <p>The Audit Committee noted the report on the implementation of audit recommendations.</p>	
<p>08.16</p>	<p>RISK MANAGEMENT – STRATEGIC RISKS</p>
<p>08.1 NEScot (UK) (Appendix N)</p>	<p>The strategic risks report advised the Committee of the latest strategic risk register, the status of net risks and management mitigating actions and the overall movement in the level of risks since the last report. The Committee observed that the risk profile reflected the more difficult operating environments</p>

<p>08.2 The Jeddah College (KSA)</p>	<p>experienced by colleges: banks now viewed the FE sector as riskier particularly since the instigation of the FE insolvency arrangements. The updated risk register shows 3 new 'High' net risks compared to the last report and there remained 10 'Significant' risks. The significant risk in relation to the achievement of funding body targets was noted as was the need to focus on the high level of pre-census student drop-out. Consideration was being given to changing the date of the main College summer enrolment and understanding the reasons for the drop-out at a granular level. Other significant risks included the maintenance of high quality teaching and learning particularly in the light of the poor English and Maths GCSE results and the changes to apprenticeship funding arrangements. Areas of increased net risk also included Health and Safety, the recruitment and retention of good quality teaching staff and the challenges in continuing to provide a high quality and effective MIS function because of high staff turnover and recruitment issues.</p> <p>Members of the Committee were advised that the SMT reviewed the risk register regularly and monitored and reviewed the action plans in place.</p> <p>The Committee recommended that reference be made to the Surrey Area Based Review report in the Annual Report and Financial Statements (ACTION: MV).</p> <p>The Committee received and noted the Strategic Risk Register.</p> <p>The Committee expressed its concern that it had again not been provided with a risk report from NCL in relation to the Saudi college. It requested that the matter be referred to NBS and noted by the Corporation (ACTION: DR/MV).</p>
<p>09.16</p>	<p>RISK ASSURANCE FRAMEWORK</p>
<p>09.1 NESLOT (UK) (Appendix P)</p>	<p>The updated risk assurance map for the UK College was received, noting the 'three lines of defence' assurance model (management; other (external); and audit). The College's internal auditors considered that NESLOT had a mature and effective approach to risk assurance. The Committee recommended that references to older audit and assurance reports that have been superseded be archived from the map (ACTION: MV).</p>

09.2 The Jeddah College (KSA)	The Committee expressed its concern that it had again not been provided with a risk assurance report from NCL in relation to the Saudi college. It requested that the matter be referred to NBS and noted by the Corporation (ACTION: DR/MV).
10.16	DRAFT PROCUMENT STRATEGY
<p>The draft Procurement Strategy was discussed by the Committee who noted the savings that had already been achieved since the appointment of the College's Procurement Officer, which was a new post. The strategy linked to the VFM policy which had been considered by the Committee at its June meeting and it reflected the recommendations arising from the recent capital projects audit. The approach to Procurement needed to be more strategic with more formal tendering and market testing taking place, greater use of procurement frameworks and more professional networking and benchmarking of value for money indicators.</p> <p>Subject to noting consideration of the role of recent Anti-slavery legislation in relation to the supply chain in procurement, the Committee APPROVED the draft Procurement Strategy (ACTION: MV).</p>	
11.16	REPORT OF THE SAFETY AND TECHNICAL COORDINATOR
<p>The report of the Safety and Technical Coordinator to the College's Health and Safety Committee was received for information. The Audit Committee proposed that the format of the report be reviewed including the provision of trend data analysis and whole year comparative data (ACTION: MV). Management commented that in the light of the recent audit report the Health and Safety area would be examined as part of the wider review of the Estates function.</p>	
12.16	PROPERTY STRATEGY GROUP
<p>The minutes of the meeting of the Property Strategy Group held on 3 November 2016 were received for information.</p>	
13.16	SELF-ASSESSMENT REPORT OF THE AUDIT COMMITTEE, 2015-16
<p>The Committee considered and APPROVED the self-assessment report of the Audit Committee for 2015/16, noting the areas for development.</p>	

14.16	ANNUAL REVIEW OF THE PERFORMANCE OF THE AUDIT SUPPLIERS
14.1 Internal Audit 2015/16 (Appendix Vi) 14.2 External Audit 2015/16 (Appendix Vii)	The minute of this agenda item is deemed to be confidential on the grounds of commercial confidentiality and is redacted for publication purposes. A record of the discussion is lodged in the confidential minute book.
15.16	ANY OTHER BUSINESS
There was no further business and the meeting ended at 11.30	
16.16	DATE AND TIME OF NEXT MEETING
The next meeting of the Audit Committee would take place on 17 March 2017 at 9.00am.	

Signed Date

Catherine Biscoe, Chair of the Audit Committee

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