



**MINUTES OF THE AUDIT COMMITTEE OF THE
NORTH EAST SURREY COLLEGE OF
TECHNOLOGY FURTHER EDUCATION
CORPORATION HELD ON FRIDAY 15 July 2019 AT
09.00 IN THE BOARD ROOM (SP216)**

PRESENT	IN ATTENDANCE
Ms Maureen Kilminster (Chair) Mr Simon Enoch Ms Liz Lawrence Mr Kabir Shaikh Attendance = 100%	Ms Lorna Raynes – RSM (Internal Auditors) Ms Lizzy Craig - Macintyre Hudson (External Auditors) Mrs Frances Rutter - Principal Ms M Vetrone - Deputy Principal, Finance & Resources Mr Graeme Hodge – Staff governor (Observer) Mrs J Carr - Clerk to the Corporation
30.18	APOLOGIES FOR ABSENCE
There were no apologies for absence.	
31.18	DECLARATIONS OF INTEREST
Mrs Rutter declared an interest as an unremunerated director of NBS Ltd, a wholly-owned subsidiary of NESCOT which is being closed. She also declared an interest as an unremunerated director of NESCOT Enterprises Ltd, a wholly owned subsidiary of NESCOT. Ms Kilminster declared an interest as the former principal of a college in Surrey.	
32.18	MINUTES
The minutes of the meeting held on 8 th March 2019 were approved as a correct record and signed by the Chair.	
33.18	MATTERS ARISING
16.2 Re-appointment of the internal auditors – the Deputy Principal reported that the timeline for tendering the internal audit service had been further delayed due to staff changes within the Procurement Team and the Team focussing on the procurement of £1.8M capital works and equipment. However, a new timeline has been agreed with the tender being issued before Christmas 2019 which will then the successful firm to commence their role on 1 st August 2020.	
34.18	INTERNAL AUDIT REPORTS 2018/19
34.1 Subcontracting report	Ms Raynes presented the Subcontracting report which is an ESFA requirement. The meeting were advised that: <ul style="list-style-type: none"> Whilst the Board were advised of subcontracting activity during the year. The Board did not sign off the 2018-19 Subcontracting agreements before they commenced.

<p>34.2 Risk Management and</p>	<ul style="list-style-type: none"> • Not all of the 10 subcontractor contracts were fully executed before the commencement of the contract activity (i.e. 1st August 2018). • The Internal Auditors are able to confirm that the College provided some of the subcontracted apprenticeships as required by ESFA funding rules. However, the Internal Auditors need assurance that the College input is more than a “token amount” and recommend that the College is providing sufficient input. Currently the Internal Auditor is not comfortable with the College’s provision/interpretation of this criteria until a definitive response from the ESFA is received. <p>When asked if the College input is a possible issue leading to potential clawback, the internal auditor advised that this is a new requirement which has not yet been fully tested. Hence the recommendation to seek further clarification from the ESFA.</p> <p>When asked if the audit findings reflected a problem with the Apprenticeship team the Principal assured the meeting that the College was aware of the current differences between the subcontracted and internal provision of apprenticeships. A principal issue relates to the management of internal provision and there is currently significant friction between College teams. As part of the exercise to address the budget gap and generate efficiency savings, SMT are considering whether Faculty Heads should be responsible for internal apprenticeships rather than the current central Apprenticeship Team. There will be a period of consultation during the summer months to consider the best way forward for managing apprentices within the Nescot campus.</p> <p>A discussion ensued including the following points:</p> <ul style="list-style-type: none"> • Will Faculty Heads understand the nuances and requirements of individual apprenticeships within their department? • Is the current system inefficient with duplication of effort? By the central Apprenticeship Team and Faculty Departments? • Are the correct people undertaking the correct roles? <p>The Internal Auditor provided an Audit Certificate for the College’s subcontracted provision which was required to be submitted to the ESFA.</p> <p>The Internal Auditor advised the meeting that the Board may take substantial assurance from the report. There is only one low-priority recommendation; a statement of data quality from the Audit Committee. The Deputy Principal advised the meeting that this</p>
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<p>Governance report</p> <p>34.3 Learner Number Systems</p>	<p>statement is always provided and that the 2018-19 statement will be agreed and signed off at the next Audit Committee meeting, which will be the 2018-19 year end meeting.</p> <p>The Internal Auditor advised that the audit work had found nothing to suggest that the College is not complying with funding rules for its Classroom based (AEB and 16-18) and Apprenticeships (pre-May 2017) provision. The report presents 4 low priority recommendations for these areas of provision.</p> <p>However, for Apprenticeships (post May 2017) the audit work identified a number of exceptions where the College has not complied with the funding rules. The report raises 3 High, 2 Medium and 1 Low priority management actions. The Internal Auditor advised the meeting that the audit findings were in line with similar findings elsewhere in the FE Sector. However, the meeting agreed that the findings may result in an ESFA funding audit and a reputational risk for the College.</p> <p>The high priority recommendations were discussed:</p> <ol style="list-style-type: none"> 1. The Deputy Principal informed the meeting that break down of negotiated price for post May 2017 apprenticeships (2.4.2) is being reviewed by the Apprenticeship Team and the additional data input to ensure consistency with new and old starters in meeting the funding rules. This work will be completed by September 2019. 2. Apprentices must have L2 English and Maths or be working towards the achievement thereof. The audit found two learners who they were unable to confirm prior-attainment of L2 English and Maths. The Deputy Principal informed the meeting that all new apprenticeship starters will need to provide evidence of L2 Maths and English when enrolling otherwise they will be required to attend English and Maths as part of their study programme (in addition and alongside their vocational training). 3. Evidence of 20% off the job training: The Internal Auditor advised the meeting that the funding rules state that 20% off the training based upon each individual learners hours of employment must be both calculated and a plan agreed for the academic year. The audit found 13 instances where this has not occurred; 10 learners who were studying with subcontractors and 3 at the College. The Internal Auditor advised the meeting that this was a sector-wide problem and that it appeared that the College direct provision learners had such plans but that the College must obtain evidence from its
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<p>34.4 IT Strategic Review</p>	<p>subcontractors that these plans have both been agreed and that the learning has taken place and been duly recorded. The Deputy Principal advised the meeting that Learner records and associated paperwork were being reviewed by the College's Apprenticeship Quality Officer to ensure better recording of this element of training and that this task is scheduled to be completed by September 2019.</p> <p>The meeting asked whether the College would be subject to a significant clawback of funding by the ESFA. The Principal advised the meeting that this was possible. The Internal Auditor agreed that it was a possibility but at this stage unlikely given the sector-wide issues. The College may be subject to an ESFA funding audit and so must ensure its records are complete and the recommendations actioned.</p> <p>The Principal assured the meeting that the review of post May 2017 apprenticeship records was an absolute priority for completion in September.</p> <p>The meeting noted the recommendations but suggested that the recommended completion date of March 2020 should be brought forward. The meeting discussed the IT developments which have been instigated since the appointment of the IT Director last November and his presentation to the April Corporation meeting. The Governors need assurance that the College has learnt from the experience of the 2018 cyber-attack and that plans are in place should another incident occur. It is believed that another Surrey College has recently been subject to a cyber-attack.</p> <p>The meeting noted that the College has now recruited a new IT Manager, and that the IT will be complete (as per the College establishment structure).</p> <p>The meeting questioned whether the £0.25M allocated for IT in the 2019-20 budget will be sufficient. The Deputy Principal advised that this would be reviewed should there be a significant change during the academic year.</p>
<p>34.5 Key Financial Controls</p>	<p>The meeting noted that the Report provides substantial assurance raising two low-priority recommendations regarding the timelier preparation and review of monthly VAT reconciliations and the periodic verification checks of fixed assets.</p>

34.6 Audit Actions Follow-up	<p>The Internal Auditor advised the meeting that the College has been adjudged as making reasonable progress in implementing agreed recommendations. The review considered 60 actions:</p> <ul style="list-style-type: none"> • High: 9 • Medium: 19 • Low: 20 • Advisory:12 <p>Of these 48 had been fully implemented; 2 had been superseded with 10 remaining outstanding. Eight of these relate to learner numbers and apprentices and two to curriculum planning. The Curriculum Planning recommendations are scheduled for implementation by December 2019 and relate to the monitoring of new courses.</p> <p>RESOLVED: that the reports of the internal auditors be noted.</p>
35.18	UPDATE ON OUTSTANDING AUDIT ACTIONS
	<p>The Deputy Principal confirmed to the meeting that the “Follow-up” schedule represents the College Manager’s assessment of the progress of the implementation of Internal Audit recommendations. The spreadsheet encompasses 2013/14 to 2018/19.</p> <p>2013-14 recommendations have been implemented; 2014-15 one recommendation not agreed by management; 2015-16 implemented and so these will be removed from the schedule going forward for 2019-10.</p> <p>Of the 30 recommendations raised in 2016-17 audits 27 have been fully implemented with the remaining 3 which relate to commercial activities will be implemented by year-end.</p> <p>For 2017/18 51 of the 54 recommendations have been implemented and the remaining 3 are in progress.</p> <p>The Deputy Principal, as discussed earlier is closely monitoring the implementation of recommendations regarding the Learner Journey 2018/19 Report.</p> <p>The meeting acknowledged the improvement in College Curriculum Planning but noted that the College has yet to fully document this process.</p> <p>RESOLVED: that the update on outstanding audit recommendations be noted.</p>
36.18	Internal Audit Plan 2019-20
	<p>The Internal Auditor advised the meeting that the internal auditors had reviewed the College Risk Register and met with the Deputy Principal before formulating the 2019-20 Internal Audit Plan. The Plan comprises of 42 audit days covering:</p> <ul style="list-style-type: none"> • Quality Assurance • Health & Safety • Staff Appraisals

- Learner Number Systems
- Key Financial Controls
- Follow up
- Audit Management

A discussion ensued regarding the inclusion of the different elements:

- Quality Assurance looks at the process and not the quality of course provision. Should an OFSTED inspection take place before this element of the audit is scheduled then the Internal Auditors will review this element of the Plan
- Health & Safety has not been included for the last 2-3 years when partial assurance was given, and it is timely to do so in 2019-20
- Key Financial Controls and Learner Numbers are annual elements of the Internal Audit Plan
- The meeting questioned whether staff appraisals were the best use of audit time that IT and Apprenticeships should be included. It was agreed to include them in the plan unless another more pressing item took priority.
- The Deputy Principal advised the meeting that Apprenticeships and IT would be included in the Follow-up element of the Internal Audit Plan.
- There will be no specific governance audit, but the auditors will attend Governor meetings and review the minutes thereof as part of their audit work for other areas within the Plan.

RESOLVED: To recommend acceptance of the Internal Audit Plan 2019-20 to the July Corporation Meeting.

37.18

Draft External Audit Strategy for 2018-19 Accounts

The External Audit Strategy focuses on the key business, fraud and audit risks associated with the preparation of the annual accounts. Based upon the projected 2018-19 out-turn, the materiality figure of £279K has been agreed together with errors in excess of £13.5 K to be reported to the Audit Committee. The External Auditor confirmed that these figures are fairly consistent for FE Colleges of comparable size to Nescot.

The External Auditor advised the meeting that the External Audit Strategy is bespoke to Nescot reflecting its specific risks and challenges. The External Auditor advised the meeting that the identified significant risks were common for the FE Sector:

- Income (with particular regard to apprenticeships)
- Management override (journals being correctly authorised)
- Future plans and going concern

Risks specific to Nescot have been identified as:

- Recognition of Income (fully captured and reconciled to ESFA statements)
- Discretionary income for learner support

- Capital expenditure additions and disposals and maintenance of market value
- Going Concern: this is a challenging aspect for Governors and one which must be duly considered. It was noted that commercial companies consider their viability in terms of the short-term (18 months) and the longer-term (4-5 years) whilst 12 months is a relatively short-term. The Deputy Principal agreed to provide an update of the finance strategy after this year's enrolment and the October 2019 census point had passed.

The External Auditor confirmed that they are not aware of fraud being identified during the year (2018-19).

The External Auditor advised that as the College had adopted the 2019 SORP there was no need to consolidate the 2018/19 accounts should the College not wish to do so for Enterprises Ltd.

Nescot Enterprises Ltd will require a separate set of accounts for submission to Companies House.

The External Auditor assured the meeting of their continued independence and that their fees were maintained at 2017-18 rates. This work includes the Teachers Pension Scheme (TPS).

RESOLVED: that the Draft External Strategy for the 2018-19 accounts be recommended to the Corporation Board for approval.

38.18

RISK MANAGEMENT AND ASSURANCE FRAMEWORK

The Deputy Principal presented the College Risk Register as at 5th July 2019. This contains 23 strategic risks (22 were reported to the March Audit Committee). The new risk relates to the sufficiency of management capacity at the strategic level (Executive Leaders) which is deemed as a high risk.

The significant net risks were noted:

Risk 2: Failure of Key information systems and loss of data and the principal mitigating actions

Risk 4: Failure to achieve recruitment targets and associated funding.... The 2018/19 under-enrolment will impact upon the 2019/20 funding received from the ESFA by some £4M.

Risk 16 BREXIT and loss of international business of some £600K per annum

Risk 20 Adverse changes in government policy and the external economic environment.

Risks 15 and 18 have been adjusted from High to Acceptable which, together with the additional new risk produces a Net Risk Profile of 44% of risks being categorised as Significant or High which reflects a 13% improvement compared to June 2018.

The meeting asked whether there was a risk in delaying the implementation of a new finance system (Risk 18). The Deputy Principal advised the meeting that any such risk would be outweighed by delaying to ensure full integration with the College student systems.

The changes in the Strategic Risk Register are highlighted in yellow.

A debate ensued regarding the new risk regarding Executive Management capacity which included:

- Including Directors of Faculties as part of SMT and creating the Executive Leadership Team in order to reduce the number of management meetings
- The 5 members of ELT provide a good skills mix and mutual support
- Some have significant travel commutes to Nescot
- What succession planning is in place

The Audit Committee decided to refer this risk to the July Corporation meeting.

The Deputy Principal presented the Risk Assurance Map as at July 2019 and reminded the meeting of the three lines of defence model utilised:

1. Management Control
2. Governor Challenge
3. Independent assurance.

The Deputy Principal assured the meeting that all the risks were carefully managed by ELT save those of Risk 20 (Change in Government policy) and R23 (Executive Leadership capacity) which were difficult to provide audit assurance.

The Committee noted the College Strategic Risk Register and Risk Assurance Map as at 5th July 2019.

39.18

Audit Guidance Documents:

Post-16 Code of Audit Practice 2018/19

ESFA College Accounts Direction for 2018/19

The Committee were advised that there were specific changes to the Post-16 Code of Audit Practice 2018/19 relating to the prevention and management and of fraud together with an anti-fraud checklist.

The Code re-iterates the responsibilities of College Audit Committees

The Code includes some common characteristics which the ESFA have identified with Colleges where they have identified regularity concerns.

The Committee noted the principal changes within the Post-16 Code of od Audit Practice 2018/19.

The Clerk assured the meeting that, as discussed at the Search and Governance Committee, preparations for a possible OFSTED inspection during 2019/20 were in hand.

The principal change with regard to the ESFA College Accounts Direction 2018-19 relates to the 2019 Insolvency Regime and the ESFA intervention triggers.

Annex D details the reporting requirements for 2018/19 accounts.

RESOLVED: that the Post-16 Audit Code of Practice 2018-19 and the ESFA College Accounts Direction 2018-19 were noted.

HEALTH AND SAFETY REPORT

The Deputy Principal advised the meeting that the Head of Health, Safety and Security's report had been discussed at the College Health & Safety meeting of 16th May.

The Deputy Principal confirmed that the College was slightly behind on safety inspection schedule but up to date with risk inspections.

The cyber security training provided by the NCSC was well received by staff and students.

25 random student searches were undertaken during the Spring Term. These continue to reinforce the College's zero tolerance approach to unauthorised goods and substances on campus.

27 incidents have been reported to date including 2 RIDOR. This is significantly less than in previous years as evidenced by the Incident Analysis 2017-2019 Appendix 5.

Similarly, reports of student misbehaviour have almost halved; 27 compared to 51 in 2018. At the Parents Welcome session in September 2018, parents were specifically advised of the College's zero tolerance regarding misbehaviour, drugs and alcohol. College staff are much better at reporting incidents of student misbehaviour and it is pleasing to note that there have been no significant reports of fighting in 2018/19.

Some sports students were reported for inappropriate behaviour when dealing with a female staff in the LRC. As a result, all sports students were excluded from using the LRC until an apology was given by the students together with an undertaking to behave appropriately in the LRC. This measure worked effectively as a deterrent to other students.

RESOLVED: that the report of the Health, Safety and Security Manager be noted.

Audit Committee Terms of Reference Review

The Clerk advised the meeting that she had reviewed the Committee Terms of Reference for 2019-20 and corrected some typographical errors. The Committee recommended the Audit Committee Terms of Reference 2019-20 to the Corporation Board for approval.

26.18	FRAUD STATEMENT
The Deputy Principal advised the Committee that no allegations of fraud had been made and there were no matters to be drawn to its attention.	
27.18	
RESOLVED:	
28.18	ANY OTHER BUSINESS
There was no further business and the meeting ended at 10.45.	
29.18	DATE AND TIME OF NEXT MEETING
Friday 4 th October at 09.00	
Monday 9 th December at 09.00	

Decisions

1. To recommend acceptance of the Internal Audit Plan 2019-20 to the July Corporation Meeting.
2. The Draft External Strategy for the 2018-19 accounts be recommended to the Corporations Board for approval.
3. The Audit Committee decided to refer Risk 23, Executive Management Capacity to the July Corporation meeting.
4. The Committee recommended the Audit Committee Terms of Reference 2019-20 to the Corporation Board for approval

Actions:

1. The Deputy Principal agreed to provide an update of the finance strategy after the October 2019 census point and after enrolment has finished.

Signed Date

Ms Maureen Kilminster, Chair of the Audit Committee

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