



**MINUTES OF THE AUDIT COMMITTEE OF THE  
NORTH EAST SURREY COLLEGE OF  
TECHNOLOGY FURTHER EDUCATION  
CORPORATION HELD ON WEDNESDAY 21 JUNE  
2017 AT 09.00 IN THE BOARD ROOM (SP215)**

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

<b>29.16</b>	<b>APOLOGIES FOR ABSENCE</b>
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No apologies were received.

<b>30.16</b>	<b>DECLARATIONS OF INTEREST</b>
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Ms Rutter, in attendance at the meeting, declared an interest as an unremunerated director of NBS Ltd and until recently, NCL. Maureen Kilminster reported that she is a former Principal of Brooklands College and a trustee of Surrey Lifelong Learning Network.

<b>31.16</b>	<b>MINUTES</b>
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The minutes of the meeting held on 14 March 2017 were approved as a correct record.

<b>32.16</b>	<b>MATTERS ARISING</b>
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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: -

#### **22.16 Update On Outstanding Audit Actions**

It was reported that the new H&S Manager was giving these matters considerable attention focusing in particular on the use of PPE of the equipment in the workshop areas.

#### **23.16 Risk Management – Strategic Risks**

'Emerging' risks are now captured in the risk register.

#### **24.16 Risk Assurance**

It was reported that the College was putting in place a policy and procedure that all vacant posts are considered for replacement by an apprentice in the first instance. It was noted that the apprenticeship levy at the College was in the region of £38k p.a.

**25.16 Health and Safety Report**

In response to questions at the previous meeting It was reported that the Health and Safety Co-ordinator did not believe that there was under-reporting of accidents; however, the new H&S Manager would be looking at this with a fresh pair of eyes and reporting as appropriate to the Committee.

Mr Hodge reported that he would be attending the College Health and Safety Committee going forward.

**06.2 The Jeddah College (KSA)**

An update was given about NCL matters.

**33.16****INTERNAL AUDIT ASSIGNMENT REPORTS****33.1 Key Financial Controls**

The internal audit assignment had examined the effectiveness of the key financial controls in use at the College. It specifically reviewed –

- General ledger
- Other Income & Debtors
- Payroll
- Procurement and payments
- Fixed assets

The audit opinion was “Green” stating *“Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage this area are consistently applied and operating effectively.”* There were two low level recommendations regarding more timely monthly reconciliations to the general ledger and the development of a standard form for the authorisation of the disposal of assets.

The Committee received the internal audit report on key financial controls.

**33.2 Learner Number Systems**

The Learner Number Systems internal audit assignment tested whether the College is compliant with 2016-17 funding rules. The audit opinion was ‘Amber’ providing ‘reasonable’ assurance that the controls that the College relied upon to manage the area were operating effectively. The view of the auditors was that based on their experience of other College Learner Number system audits, the College had received a low number of recommendations and therefore a positive outcome. There was one high level recommendation regarding the recording of planned hours in the

<p><b>33.3 Follow-up Actions Tracking Report</b></p>	<p>ILR, and two low level recommendations regarding photocopies of student passports held on file; and documentation of student withdrawals. The net effect of the exceptions was a potential over-claim of funding.</p> <p>The College accepted the recommendations of the auditors and had identified appropriate management actions and a timescale for their implementation.</p> <p>The Audit Committee received the report of the internal auditor on Learner Number Systems.</p> <p>The Audit Committee received and noted the Follow-up Recommendations Actions Tracking Report presented by the auditors. 23 of the 25 recommendations have been confirmed as implemented. The audit opinion was that the College had 'demonstrated good progress in implementing agreed management actions'.</p>
<p><b>34.16</b></p>	<p><b>UPDATE ON OUTSTANDING AUDIT ACTIONS</b></p>
<p>The College presented the Committee with details of the actions taken in response to internal audit recommendations arising from assignments in the current academic year. 10 of the 16 recommendations had been fully implemented. The Committee requested that the audit recommendations in the area of Health &amp; Safety regarding the stocks of personal protective equipment be retained as a major area of focus.</p> <p>The internal audit assignments relating to commercial strategy and estates management were due to commence shortly and would be reported to the November meeting. Based on the assignment work undertaken to date, the view of the auditors was that they would be in a position to give an unqualified opinion.</p>	
<p><b>35.16</b></p>	<p><b>INTERNAL AUDIT PLAN 2017/18</b></p>
<p>The internal audit assignment plan for next academic year 2017/18 was received. The proposed areas of scrutiny were</p> <ul style="list-style-type: none"> <li>• Apprenticeship levy</li> <li>• General Data Protection Requirements (GDPR)</li> <li>• Learner number systems</li> <li>• Curriculum planning</li> <li>• Teaching staff utilisation</li> <li>• Key financial controls</li> <li>• Governance and risk management</li> <li>• Action tracking</li> </ul>	

- Audit management

It was reported that the audit on Governance and Risk Management would be delivered through risk-based audit reviews and attendance at Audit Committee minutes. The Chair of the Audit Committee commended the plan for the inclusion of GDPR.

The Committee confirmed that it supported the proposed internal audit plan for 2017/18 and commended it to the Corporation for approval.

**36.16**

**DRAFT EXTERNAL AUDIT STRATEGY 2016/17**

MHA presented the draft external audit strategy for the College's financial statements. The highest areas of risk identified for the College would be areas of focus, specifically capital expenditure, the recognition of income, the College as a going concern, major capital projects and related party transactions. As the College remained the majority shareholder in the JVC in Saudi Arabia, the audit would include work undertaken in-country by a partner firm working with NCL's appointed auditors. This had worked well last year and would provide additional assurance.

The Committee discussed the impact of the Saudi JVC on the financial statements and annual report. The annual report should set-out the basis for the decisions in relation to the JVC which, in the opinion of the auditors, was being made for sound business reasons and was in the best interests of the shareholders and the College.

The materiality thresholds, being £268,468 and 5% (£13,424) in any transaction, account balance and disclosure, were noted. The timetable, including the work in Saudi Arabia, was noted.

In response to questions from the Chair the auditors confirmed that regularity audit work was integrated into the overall audit plan. It was also noted that to date the ESFA had yet to confirm the details of the regularity questionnaire.

The Audit Committee approved the draft audit strategy of the external auditors and commended it to the Corporation for adoption.

**37.16**

**RISK MANAGEMENT – STRATEGIC RISKS**

**37.1 NESBOT (UK)**

The Committee reviewed the updated strategic risk register. The full list of operational risks were also made available. The Committee noted the current risk profile and the movements in the categorisation of risks. There were 10 'Significant' net risks and 5 'High' risks. This was a net increase of 1 new 'High risk' which was the elevation of an 'Acceptable' risk:

Risk 5 - Failure to monitor and control partnerships and sub-contractor contracts may lead to increased and

unplanned costs, failure to achieve financial targets, poor value for money, and damage to reputation.

Other changes to (heightened) risks related to the elevation of business continuity risks associated with IT systems from 'Acceptable' to 'Significant' following a recent outage of the College's email systems. This was because of the failure of the recently-acquired replica server. A review of IT infrastructure, staffing and resources had been initiated. Additionally the risk of 'failure to monitor and control partnerships and sub-contractor contracts' had been increased from 'Acceptable' to a 'High' net risk since the last report, reflecting the higher level of financial exposure.

The Committee commended the level of detail and transparency of the risk register. Members of the Committee asked about the external cladding that had been installed at the College in the light of the recent Grenfell Tower tragedy in London. College management responded that an urgent follow-up report had been requested from the contractors; in the meantime the number of fire drills had increased.

Other comments made concerned

- Ensuring that a downward pressure was kept on staff costs which were slightly above the benchmark and recommendations of the FE Commissioner.
- In the context of the changes to the funding regime for apprenticeships the College was experiencing tremendous difficulties recruiting suitably qualified and experienced assessors in the areas where there was a very high demand for apprentices i.e. construction.
- The need to develop stronger links with larger levy-paying employers: most of the College's apprentices were employed by SMEs
- The College, like many other institutions, struggled to recruit and retain good MIS personnel. The College was seeking to develop its own pipeline by recruiting new graduates.
- The turbulence in the external environment particularly in the light of the hung Parliament and Brexit.

The Committee noted the Strategic Risk Register.

<b>37.2 The Jeddah College (KSA)</b>	The Committee noted with concern that a report had not been received from NCL for the Jeddah College.
<b>38.16</b>	<b>RISK ASSURANCE FRAMEWORK</b>
<b>38.1 NESOT (UK)</b>	<p>The updated risk assurance map for the UK College was received, noting the ‘three lines of defence’ assurance model i.e. management; other (external); and audit.</p> <p>The Committee noted the high level of assurance provided to the Committee. Of the 23 strategic risks, 19 were the subject of high levels of assurance and 4 medium assurance. The weaknesses in the third lines of defence (audit) were government policy, particularly funding and the wider external environment: these were difficult to cover off in the form of external assurance assignments.</p> <p>The Committee highlighted the high level of risk in the area of commercial income yet the absence of external assurance. The College management commented that an internal audit assignment was shortly to be initiated and the results reported to the November meeting.</p>
<b>38.2 The Jeddah College (KSA)</b>	The Committee noted that again a risk assurance report had not been provided by NCL.
<b>39.16</b>	<b>AUDIT GUIDANCE DOCUMENTS</b>
The Post-16 Code of Audit Practice and ESFA College Accounts Direction 2016/17 audit guidance documents were received for information.	
<b>40.16</b>	<b>HEALTH AND SAFETY REPORT</b>
<p>The Committee received the report of the Health and Safety Co-ordinator. The Committee noted that the report gave details of the levels of stocks of PPE in each department. In addition the report covered information about any H&amp;S aspects of student educational visits. The Committee noted that the College was to commission an urgent fire strategy survey review of the College’s arrangements and that evening evacuation electronic muster point readers were being installed.</p> <p>The incident reports did not indicate any specific trends for comment by the Committee.</p> <p>The Deputy Principal reported that the new Health and Safety Officer was in post and that she would be looking at the College’s H&amp;S arrangements with a fresh pair of eyes, drawing upon her experience in industry.</p>	

<b>41.16</b>	<b>TERMS OF REFERENCE AND CYCLE OF BUSINESS</b>
<p>The Committee approved the terms of reference and cycle of business subject to</p> <ul style="list-style-type: none"> <li>• The provision of an annual Fraud report including nil reports.</li> <li>• To move the timing of the appointment/re-appointment of auditors from the summer meeting to the autumn.</li> </ul>	
<b>42.16</b>	<b>ANY OTHER BUSINESS</b>
<p>There was no further business and the meeting ended at 10.58.</p>	
<b>43.16</b>	<b>DATE AND TIME OF NEXT MEETING</b>
<p>The next meeting of the Audit Committee would take place on 01 December 2017 2017 at 09.00 (subject to confirmation).</p>	
<b>44.16</b>	<b>CONFIDENTIAL ITEMS</b>
<p>The representative of the Audit firm withdrew from the meeting at this point.</p>	

Signed ..... Date .....

**Catherine Biscoe, Chair of the Audit Committee**

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