



AUDIT COMMITTEE

FINAL SIGNED Minutes of the Meeting held on Monday 7 November 2016

at 5.30pm in Room 02.03, Osprey House, Redditch Campus

Present

Governors:

Kevin Gaffney
Steve Bolton
Lucy Hodgson
Denis Miles
Debbie Morris

Vice Chair and Chair for the Meeting

In Attendance

Neill Bucktin
Stuart Laverick
Kelvin Nash
Nicki Williams
Cherie Clements
John Golding

Corporation Chair
Principal
Vice Principal Curriculum & Quality
Vice Principal Corporate & Resources
Director of Finance
Partner, Grant Thornton UK LLP (External Auditors)
Simon Turner
Manager, Grant Thornton UK LLP (External Auditors)
Karen Gentles
Manager, RSM Risk Assurance Services LLP (Internal Auditors)
Sue Frost
Clerk to the Corporation

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Kevin Gaffney chaired the meeting in his capacity as Vice Chair. Kevin welcomed Neill Bucktin, the Corporation Chair, who was in attendance for the discussion of the Regularity Self Assessment Questionnaire.

9.1 Apologies

- i) Apologies for absence were received from Louise Gresty (Chair) and Gary Woodman. Lucy Hodgson was expected but had been delayed.

9.2 Declarations of Interest

- i) Members were asked to declare any Interests, financial or otherwise, which they may have in any Agenda Item and confirmed that they had none.

9.3 Audit Committee Concerns

- i) Members were invited to raise any issues which they wished to discuss in the absence of College Management and Auditors and agreed that they had none.

The auditors joined the meeting at this point

9.4 Auditor Concerns

- i) The auditors were invited to raise any issues which they wished to discuss in the absence of College Management and agreed that they had none.

The College attendees joined the meeting at this point

9.5 Minutes of the Previous Meeting

- i) The Audit Committee **APPROVED** the Minutes of the meeting held on 13 June 2016 as an accurate record for signature by the Chair.

9.6 Matters Arising

- i) The Audit Committee reviewed the Action Points report and noted progress. Verbal updates were:

- 8.7: The Vice Principal Curriculum & Quality confirmed that the College continued to learn from Ofsted graded Good and Outstanding Colleges, including East Riding College (Good with Outstanding Features) and South and City College (Good). The Colleges shared practice in tackling similar problems and there were some useful approaches to English and Maths.
- 8.10 would be addressed as part of a later Agenda Item.
- 7.10: Cross referencing the Subcontracting controls report to the Post Inspection Action Plan had been addressed.
- 3.7: The Information Commissioner's Office had been invited to comment on Data Security but there was no guarantee that the College would be selected.

- ii) The Audit Committee **MONITORED** action taken, and remaining to be taken, in respect of Matters Arising from the Minutes of previous meetings.

9.7 Determination of Any Other Urgent Business

- i) There were no other items of urgent business.

9.8 Bank Covenants

- i) The papers included a summary of the year end position for each lender and requirement. The three Covenants had been breached and the correct accounting treatment followed, which was to show them as amounts becoming due within twelve months as at 31 July 2016. The Director of Finance stated that the College had received a "letter of comfort" from Santander and a waiver letter from Nat West clarifying that immediate repayment would not be sought. Barclays appeared to be less flexible, promising a "Reservation of rights" letter with ongoing testing. It was likely that covenants could be renegotiated, but at higher margins. The Barclays loan had a high break cost, which had prevented early repayment in the past, as evaluated by Finalysis.

- ii) John Golding, Audit Partner, Grant Thornton UK LLP, stated that the problem was widespread and that the Finance Team had done well to get responses from the banks in time for reflection in the Financial Statements.

- iii) The Audit Committee:

- **RECEIVED** updated information about the bank covenant position

- **REQUESTED** that information about the current position be included in the Financial Statements **Action DoF**
- **NOTED** that the College would seek advice from Finalysis and reassess the cost benefit of early repayment of the Barclays loan. **DoF**

9.9 2015 – 16 Financial Statements

i) **Regularity Assurance Review and Regularity Self Assessment Questionnaire**

The Director of Finance explained that the Regularity Self Assessment Questionnaire was completed by the College for the External Auditors to inform the Regularity Audit. The Corporation Chair was attending because a new requirement in the Joint Audit Code of Practice stated that the self-assessment questionnaire must be completed and signed by the college accounting officer and Chair of Governors at "a suitable committee meeting in advance of the reporting of the year end audit work".

The Audit Committee **REVIEWED** the Regularity Self Assessment Questionnaire and **RECOMMENDED** that the college accounting officer and Corporation Chair sign it. **P/ Corp Ch**

Neill Bucktin left the meeting and Lucy Hodgson joined the meeting at this point.

ii) **Financial Statement Auditors Audit Findings Report, Letters of Representation**

The External Audit Partner thanked College staff for their assistance in the Audit process which had kept to timetable and had gone very smoothly. Funding confirmation was still awaited from the Skills Funding Agency but no concerns were expected. The key issue was the impact of the bank covenant breach which had led to the reclassification of loans to "Creditors: amounts falling due within one year". The Director of Finance would seek to get covenants reset to exclude the impact of the pension deficit and it was possible therefore that the loans would return to long term Creditors in 2016/17. Going Concern looked at the position twelve months from signing the accounts and the Auditors concurred with the College's view that the College remained a Going Concern. One issue had been identified with title deeds for one building, which needed locating but this was not uncommon in the sector. The Auditors expected to issue an unqualified Regularity Opinion.

The Audit Committee

- **REVIEWED** the findings of the Financial Statements audit with the external auditor
- **AGREED TO ADVISE** the Corporation that no material control issues were identified in the Financial Statements Auditors Audit Findings Report in respect of the accounts of Heart of Worcestershire College for the year ended 31 July 2016
- **AGREED TO RECOMMEND** the Financial Statements Auditor's Audit Findings Report (which included the Letter of Representation) for the year ended 31 July 2016 to the Corporation for approval on 13 December 2016 **CC**

- iii) Going Concern Review**
 The Director of Finance explained the twelve month forward cashflow which took the worst case view of the banks demanding repayment. The lowest potential cash balance, in the event of all balances being repaid, would be £4.5m in March 2018. Financial Health had changed from Good to Satisfactory as a result of the covenant breaches but management did not believe this would trigger adverse circumstances from the Skills Funding Agency.
- The Audit Committee **RECEIVED** confirmation from College Management that the Going Concern basis remains appropriate and **RECEIVED** the cashflow forecast for the period to 31 July 2017.
- iv) Financial Statements**
 The Director of Finance confirmed that Note 26 explained the impact of FRS 102 and the 2015 FE HE SORP. “Triannual” would be corrected to “Triennial”.
- The Audit Committee **MONITORED** the integrity of the annual Financial Statements, reviewing significant financial reporting issues and judgements which they contained and **REVIEWED** the Statement of Corporate Governance and Internal Control.
- v) Financial Statements Recommendation**
 The Audit Committee **AGREED TO RECOMMEND** the Heart of Worcestershire College Financial Statements for the year ended 31 July 2016 to the Corporation for approval on 13 December 2016. **CC**
- The Audit Committee Chair and Members thanked the Vice Principal Curriculum & Quality, the Director of Finance and the Finance Team for their hard work in respect of the Financial Statements for 2015/16.
- vi) Teachers Pension Statement**
 The Audit Committee
- **NOTED** the Engagement Letter with Grant Thornton
 - **REVIEWED** the Teachers’ Pension Statement and **AGREED TO RECOMMEND** it to the Corporation for approval **CC**
- vii) Subsidiary Company Accounts**
 The Director of Finance reminded Members that the College had two subsidiary companies which filed dormant accounts. The companies would hold Annual General Meetings to approve their accounts.
- The Audit Committee **NOTED** the Molinna Ltd and NEWCEL Accounts.
- 9.10 Internal Audit Annual Report 2015/16**
- i)** Karen Gentles, Manager, RSM Risk Assurance Services LLP presented the Annual Report. The audit opinion was positive and was the second level of support that could be provided because recommendations had been made. The report included an overview of reports issued and a summary of the work done during the year.

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ii) Members asked about progress with Cyber Security, which was due to be followed up in December 2016. A question was asked about the new e-safe monitoring controls the Vice Principal Corporate & Resources said that "E-Safe" monitored key stroke and key words. A monthly report was provided and alerts if there was suspicious activity however this system is more related Safeguarding and Prevent agenda than Cyber Security controls. Progress against the 2015/16 Safeguarding and Prevent IAS review had also made good progress, with issues discussed at a recent Safeguarding meeting.

iii) The Audit Committee **AGREED TO ADVISE** the Corporation that there were no significant issues arising from the Internal Auditor's Annual Report for the year ended 31 July 2016 and **AGREED TO RECOMMEND** the Internal Audit Annual Report to the Corporation for approval on 13 December 2016.

CC

9.11 Audit Committee Performance Review

i) The Clerk to the Corporation reported on the three elements of Audit Committee performance:

- Assessment of compliance with the Terms of Reference. The report on compliance with the Principal Responsibilities in the Terms of Reference had been updated and indicated full compliance with the requirements.
- Assessment of effectiveness. Six respondents had completed the Audit Committee Effectiveness Aide-Memoire. Effectiveness was considered as 52% 'Fully satisfactory', 43% 'Above Average', 4% "Occasionally/Below Average" and 1% "Not Applicable" across the range of areas covered.
- Benchmarking attendance. Audit Committee Members' attendance had improved to 85.71 % in 2015/16, from 83.33%. Individual attendance varied from 67 - 100% with no Member missing more than one meeting.

ii) Members were invited to consider what actions should be taken to improve performance scores. Whilst acknowledging the receipt of Internal Audit's useful Briefings, Members requested the inclusion of a development item during the year. The Auditors kindly agreed to provide training for the new Audit Committee Member.

CC
Auditors/
CC

iii) The Audit Committee considered setting Performance Indicators and the Auditors stated that practice was mixed with regard to questionnaire or PI based assessment. Members confirmed their wish to continue with the annual questionnaire, but accepted that a more comprehensive response would better facilitate the identification of areas for improvement.

iv) The Audit Committee **MONITORED** its effectiveness in 2015/16 and concluded, based on compliance with Terms of Reference, effectiveness questionnaire responses and attendance that it was effective.

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9.12 Revised Joint Audit Code of Practice and Terms of Reference Review

- i) The papers included the June 2016 Joint Audit Code of Practice issued by the Skills Funding Agency and Education Funding Agency. Minor changes were highlighted and the Financial Memorandum with the Skills Funding Agency and Funding Agreement with the Education Funding Agency were available on the Governor Portal.

The Audit Committee **RECEIVED** the revised Joint Audit Code of Practice June 2016.

- ii) The Terms of Reference had been amended to take on board two minor changes and generally to reflect the terminology and specific wording used in the Joint Audit Code of Practice.

The Audit Committee **REVIEWED** the Terms of Reference and **AGREED TO RECOMMEND** revised Terms of Reference to the Corporation for approval on 13 December 2016.

CC

9.13 Audit Committee Annual Report

- i) The Clerk to the Corporation talked members through the draft Audit Committee Annual Report agreeing wording to be used in conclusion sections. Members noted that the Auditors were unable to provide a form of words for their Audit Opinion as this was awaiting legislation to confirm the change of Principal Regulator for Further Education Colleges from the Department for Business, Innovation and Skills to the Department for Education. The External Audit Partner suggested instead that the report should state that an unqualified opinion would be given, which was agreed, and that the considerable work done to accommodate FRS 102 be highlighted as this was commendable.

- ii) The Audit Committee
- **PRODUCED** the Audit Committee's Annual Report to the Corporation for the year ended 31 July 2016 **SUBJECT TO** the amendments above
 - **DELEGATED** authority to the Audit Committee Chair to approve the final version for submission to the Corporation on 13 December 2016.

CC

**AC Chair/
CC**

9.14 Risk Register and Assurance Framework

i) Risk Management Annual Report 2015/16

The Vice Principal Corporate & Resources presented the Risk Management Annual Report, which described the Risk Management process, including those factors influencing the inclusion and classification of risks within the register, how risk is embedded at the college, the ongoing use and development of assurance frameworks and a summary of work undertaken by the Internal Auditors during 2015/16 with regards to risk management and assurance frameworks. The Principal stated that the College teams gained a lot from the Risk Register which was a very useful management tool.

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The Audit Committee **REVIEWED** the Risk Management Annual Report 2015/16 and **AGREED TO RECOMMEND** it to the Corporation for approval on 13 December 2016. **CC**

ii) Risk Management Plan for 2016/17

The Vice Principal Corporate & Resources presented the Risk Management Plan 2016/17 autumn term update which had been sent as a following paper. The full Risk Register was available on the Governor Portal. All changes to the Risk Register were listed. There were more high / red risks in the Autumn Term as it was more unsettled, with more unknowns particularly in terms of Student Numbers. The External Audit Partner agreed that this was normal. New risks had been added in respect of the pension deficit and bank covenant and recent risks such as the impact of Brexit continued. Members agreed that it was helpful to continue with the practice of presentations from managers on risk management.

The Audit Committee:

- **REVIEWED** the revised Risk Register
- **CONSIDERED** action proposed to address assurance gaps in 2016/17
- **CONSIDERED** the Audit Committee's approach to monitoring the Risk Register in 2016/17

9.15 Annual Procurement Report

i) The Director of Finance presented the Procurement report which included a review of procurement activity during 2015/16 including spend values that exceed £50,000 during the year and initial plans for 2016/17. The College remained committed to achieving value for money through its procurement whilst ensuring contracts, quotations and tenders are compliant with College Financial Regulations and EU Procurement Regulations.

ii) The Director of Finance confirmed that the report excluded subcontracting payments. Members asked whether the benefits of merger continued to emerge and the Director of Finance stated that key savings had been taken in the first year of merger. A Benefits Realisation Report could be done at the end of three years, although many other change factors would need to be identified to get a true measure.

iii) The Audit Committee **REVIEWED** the Procurement Report for 2015/16 and **AGREED TO RECOMMEND** it to the Corporation for monitoring on 13 December 2016. **CC**

9.16 Internal Audit Reports

i) Follow Up of Human Resources and Payroll 2.15/16

The Internal Audit Manager stated that the follow up report showed that good progress had been made. All but one recommendation had been dealt with and that one had been downgraded because of progress made.

ii) Progress Report

The Progress Report included changes to the Audit Plan, an emerging issues Briefing and a Risk management report on the sector.

iii) **Quality Assurance**

An additional following paper had been sent out in response to a discussion between the Audit Committee Chair, Vice Chair and Vice Principal Curriculum & Quality during the week. The Internal Auditors had a twelve day audit scheduled Quality Assurance Systems (which had moved to May 2017) and would look at reasonableness and compare practice within their experience. In the previous meeting, Members had expressed concern over their own assurance over this area and had suggested that the College consider obtaining additional specialist input.

The Vice Principal Curriculum & Quality had ascertained that additional input could be sourced at a cost of £600 per person per day. However, Russell Jordan, HMI, was undergoing the role of Ofsted Support and Challenge Inspector which meant he would be in College on three days in the year (and additionally by email) specifically advising on action proposed and taken by the College to improve quality. The paper included Russell Jordan's report on his visit on 21 September 2016, which referred to the Self Assessment Report, Post Inspection Action Plan and College Improvement Plan, the Teaching and Learning Quality Group and the Lesson Observation process.

The Principal reported that he had researched the use of external assurers amongst his colleagues: in five instances Colleges had been assured they were "Good", but when Inspection came, three were graded "Requires Improvement" and one "Inadequate". College management felt that Russell Jordan would validate risk, was authoritative and was well placed to compare practice with other providers. External input was also provided by working with other Colleges. The College had also just recruited an Ofsted Inspector as a Curriculum, Resource and Quality Manager.

Members asked whether it would be possible to seek additional days of support from Russell Jordan, but understood that this could be seen as conflicting with his Ofsted role. The Staff Governor felt that it would be more beneficial to spend additional resource on supporting teaching staff rather than an external assurance that might not add value to what was already in place. After further discussion, Members agreed that the involvement of Russell Jordan HMI would provide ongoing comfort over Quality assurance matters and asked to be alerted to matters of concern arising in his subsequent visits.

- iv) The Audit Committee **RECEIVED** the Human Resources Follow Up and Progress Reports and **AGREED TO ADVISE** the Corporation that good progress was being made to address recommendations.

9.17 **Audit Action Plan**

- i) The Clerk to the Corporation explained that the Internal Audit Action Plan was a tool intended to allow the Audit Committee to monitor the timely completion of action proposed in response to recommendations. The Internal Audit Action Plan included items from the two Internal Audit Follow Up Reports from June 2016. There were five recommendations, one completed, three carrying

Action

forward to date and one to be confirmed. The Vice Principal Corporate & Resources stated that target dates set were realistic but challenging and Members therefore felt that the percentage completion by original implementation date score was helpful and should be recorded from 2016/17.

- ii) The Audit Committee **MONITORED** the implementation of agreed recommendations relating to Internal Audit Reports.

9.18 Students Union Accounts

- i) The Audit Committee **NOTED** that the Students' Union Accounts would be presented to the Corporation meeting on 13 December 2016. **CC**

9.19 Update on the Funding Audit

- i) The Director of Finance explained that the College had been selected by the Skills Funding Agency for a Funding Audit, probably because the College's level of subcontracting made it a high risk from the funders' viewpoint. No significant matters had been identified, there was no funding impact and a Management Letter should be received in November. Members asked what this audit involved and Karen Gentles explained that a large sample was selected with all documentary evidence in support of the funding claim checked. Extra tests would be carried out if issues were identified and there was a potential for funding to be clawed back. Issues identified generally included funding claims for English and maths and study programmes.

- ii) The Audit Committee **RECEIVED** the Audit Reports to the Education Funding Agency and to the Skills Funding Agency from KPMG and **NOTED** that these would be presented to the Corporation meeting on 13 December 2016. **CC**

- iii) The Audit Committee Chair and Members noted that these audits involved a considerable time commitment and thanked the staff involved for their responsiveness and the successful outcomes.

The following items were taken out of Agenda order – Agenda numbering retained for cross referencing

9.23 Any Other Urgent Business

- i) There was no other urgent business.

9.24 Date and Time of Next Meeting

- i) Monday 6 March 2017, 5pm, M316, All Saints Building, Worcester

The Auditors left the meeting at this point.

CONFIDENTIAL ITEMS

9.20 Minutes of the Previous Meeting

- i) The Audit Committee **APPROVED** the Confidential Minutes of the meeting held on 13 June 2016

9.21 Review of Performance of External Auditors for 2015/16:

- i) This matter is recorded as Confidential Minute 1 of 2

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9.22 Subcontracting Control Audit 2016/17

i) This matter is recorded as Confidential Minute 1 of 2

The meeting closed at 7.25pm.

Signed:

Date:

Sue Frost
Clerk to the Corporation
8 November 2016