

AUDIT COMMITTEE

APPROVED DRAFT Minutes of the Meeting held on Tuesday 5 March 2019

at 5.30pm in O2.03 Osprey house, Redditch

Present

Governors:

Lucy Hodgson	Vice Chair and Chair for the meeting
Tony King	
Denis Miles	
Debbie Morris	
Sue Nicholls	

In Attendance:

Stuart Laverick	Principal
Nicki Williams	Vice Principal and Deputy Chief Executive Officer
Claire Barton	Director of Quality, HE and Professional
Cherie Clements	Director of Finance
Tony Felthouse	Senior Manager, KPMG (External Auditors)
Louise Tweedie	Director, RSM Risk Assurance Services LLP (Internal Auditors)
Asam Hussain	Senior Manager, RSM Risk Assurance Services LLP (Internal Auditors)
Sue Frost	Clerk to the Corporation

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16.1 Apologies

- i) Apologies were received from Kevin Gaffney and Steve Bolton. Lucy Hodgson was Chair for the meeting. Tony King was expected but had been delayed. The training planned for before the meeting had been postponed due to limited Governor availability and would be rescheduled.

The attendees left the meeting at this point.

16.2 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 no interests to declare.

16.3 Audit Committee Concerns

- i) Members were invited to raise any issues which they wish to discuss in the absence of College Management and Auditors and all confirmed that there were none.

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Tony Felthouse, Senior Manager, KPMG and Louise Tweedie, Director, and Asam Hussain, Senior Manager, RSM Risk Assurance Services LLP returned to the meeting at this point

Tony King joined the meeting at this point.

16.4 Auditor Concerns

- i) The Auditors were invited to raise any issues which they wish to discuss in the absence of College Management and all confirmed that there were none.

The Principal, Vice Principal and Deputy Chief Executive Officer, Director of Quality, HE and Professional and Director of Finance returned to the meeting at this point.

The Chair asked Tony King whether he had any interests to declare with reference to his declaration in the previous meeting. It was agreed that the fact that KPMG were also auditors of Sanctuary Housing but with a different manager and partner did not require further action and would be recorded in the Register of Interest rather than at each meeting.

CC/TK

16.5 Minutes of the Previous Meeting

- i) An omission and minor corrections were highlighted in the papers. The Audit Committee **APPROVED** the revised Minutes of the meeting held on 20 November 2018 as an accurate record for signature by the Chair.

16.6 Matters Arising

- i) The Clerk to the Corporation reported that 22 actions had been completed or would be addressed in the course of the meeting, one had been superseded and one carried forward.

With reference to 15.9 v): 2017 – 18 Financial Statements Going Concern Review. The Director of Finance explained that the papers included the schedule requested by the Audit Committee Chair showing the cash position at the start of each financial year from merger and as planned and projected for 2018/19, with the net cash inflow from operating activities shown alongside payments to acquire fixed assets and repayments of loan capital. Members felt that this was a useful, succinct summary of the underlying cash position.

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

16.7 Determination of Any Other Urgent Business

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

Risk Register and Assurance Framework

16.8 Effective Monitoring of Student Progress

- i) Claire Barton, Director of Quality, HE and Professional gave a risk based presentation which covered:
- Self Assessment and Quality Improvement Planning
 - Monitoring progress through formative and summative assessment over the year –

Action

- The comprehensive overview of student progress provided through Quality Reviews, Curriculum Area Reviews, peer observation and learning walks and CPD and stakeholder feedback
- The changes in the new Ofsted Education Inspection Framework (EIF)

ii) Key points were:

- Students should have a minimum of two academic and one pastoral target recorded on ProMonitor. This was at 91% as some targets were recorded in other places. English and maths target setting was at 98%. 10% of the targets were sampled and tested for appropriate stretch and challenge.
- Units were recorded on ProMonitor over the year but the first part of the year was formative with many modules not being signed off as completed until the later summative phases. This created a misleading impression in the data. To counter this progress was monitored in tutorials and students assigned a risk rating with those “at risk” of not completing being followed up more intensively.
- Quality Reviews were termly peer assessments considering KPIs, progress against Quality Improvement Plans and actions
- Curriculum Area Review was a peer review process of a range of evidence provided by CRQ (Curriculum Resource and Quality) Directors and Leaders. Five areas had been covered to date and all areas should be reviewed over a two year cycle. This identified good practice and areas for improvement.
- Peer observations provided valid, reliable and valuable information for appraisals action plans and continuing professional development. Learning walks offered the opportunity to triangulate feedback.
- Internal and external feedback allowed continuing professional development to respond to business needs.
- Progress monitoring would be more important under the new Inspection framework. Students would need to be able to articulate the Colleges impact on them - who were they, where had they come from and where were they going.

iii) The following answers were given to Governor’s questions:

- How would the College get people ready for the EIF approach? The College was not likely to be inspected until 2022/23. Significant steps were being taken in target setting, monitoring and student buy in to that system.
- The Staff Governor stated that inaccurate information being provided for students on arrival was not helpful and that GDPR sometimes caused issues in this respect.
- Ofsted had asked Governors about progress monitoring at the last Inspection. How was the move to peer observation working? 85% had been completed. Staff feedback was positive and the Assistant Quality Practitioners picked up issues and supported development.
- Was the peer observation consistent? There had been solid training at the beginning, but a full year’s review would help to assess this. The Staff Governor said it was helpful to be able to suggest who the peer reviewers should be as they would then know the expectations for that area. The Principal felt that staff were more engaged in feedback than under the previous graded system.

- iv) The Audit Committee **RECEIVED** a presentation from Claire Barton, Director of Quality, HE and Professional on Effective Monitoring of Student Progress risks.

The Chair thanked the Director of Quality, HE and Professional for her input. The Director of Quality, HE and Professional left the meeting at this point.

16.9 Strategic Risk Register – Spring Term Update

- i) The Vice Principal and Deputy Chief Executive Officer presented the Spring term Strategic Risk Register and summary showing the scoring and classification of all risks following review by the Risk Management Group. The full Risk Register was available in the supporting papers folder on the Governor Portal. Details were provided of the increases in individual risk scores:

- Compensation claims from dissatisfied learners. Increased from (6) medium to (9) medium. Reflecting quality issues in Engineering provision in previous years as discussed with Corporation.
- Risk of breaching bank covenants. Increased from (6) medium to (12) high to reflect increased projected deficit for 2018/19 and reduced reserves college will hold post the Engineering facilities development, and the impact of these events on bank covenant calculations.
- Pensions. Increased from (8) medium to (12) high to reflect increasing LGPS costs and uncertainty over higher than anticipated increases to TPS contribution rates.
- Inability to invoke data recovery plans. Increased from (6) medium to (8) medium. Reflecting planned move to Office 365 and changes and challenges associate with new systems & processes.

- ii) The Vice Principal and Deputy Chief Executive Officer explained that capital project risks were already covered within several headings in the Risk Register. However, in response to Governor challenge a new risk had been added in the Estates Section which covered the current situation where the College had multiple large value Capital Projects ongoing simultaneously:

Capital Projects – score (8) medium relating to multiple capital projects planned and progressing and need to manage timeframes, cash flow and external funding.

- iii) Governors Challenged the Vice Principal and Deputy Chief Executive Officer, asking:

- What was the incidence of compensation claims? There was an increase in “Failure to educate” claims generally. The College had not received any and insurance was in place. A Governor had recently carried out Learning Walks in Engineering and the Principal confirmed that some historic difficulties had been addressed.
- Could the column headings be replicated on every page? Yes.
- Was there duplication in the Higher education (HE) risks? (Risks 1.5 & 2.8.) No, failure to recruit was an ongoing risk with student numbers, failure to register as a provider was a separate risk that would prevent the College providing HE.
- Did the College stress test financial health? The Financial Health and Bank Covenant measures were regularly stress tested. The

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Financial Planning in July would include stress testing of costs and income.

- iv) The Chair asked Members what subjects might be considered for risk presentations in future meetings. Possible topics were Brexit or the next Comprehensive Spending Review. **CC**
- v) The Audit Committee **MONITORED** the College Risk Register.

16.10 Internal Audit Reports

i) Progress Report

Louise Tweedie, Director, RSM Risk Assurance Services LLP, presented the internal audit reports, with the first summarising progress to date, reflected in the following reports. The work was proceeding to plan for final reporting at the next meeting. The progress report also included the Autumn 2018 "Further Education Emerging Issues" briefing information. There had also been more recent changes to the requirements for reporting the pay of senior staff in the recently released ESFA Accounts Direction and more information would now have to be provided.

The Principal commented that the College was working proactively on the Careers Hub with the Further Education Skills and Productivity Group, but that it was frustrating that the College still did not have open access to schools to explain their offer to students. Even in the Worcester Careers Hub the schools and Colleges met separately.

ii) Estates Management Framework

The Key Estates Management Framework Review had concentrated on planned and reactive maintenance and external contracts. The report was very positive with a clear framework and good compliance. There were two recommendations, one low and one medium priority. The Internal Audit Opinion was that the area provided Substantial Assurance (green) to the College. Governors asked about possible issues with timely completion and the Vice Principal and Deputy Chief Executive Officer explained that work for a campus was sometime "bundled" to allow efficient use of contractor time but that the ticket system was being revised to allow improved tracking of incomplete or outstanding jobs.

iii) Human Resources Controls: Training and Development; Appraisals and Performance Management

The Human Resources Controls: Training and Development; Appraisals and Performance Management review contained six recommendations, five low and one medium priority. The Internal Audit Opinion was that the area provided Substantial Assurance (green) to the College. Members noted that several recommendations would be addressed by changes to the JANE system and asked if the College was sure this was possible. The Vice Principal and Deputy Chief Executive Officer stated that the College had been assured of this functionality but there were some legacy issues from lack of consistency in the different historic systems. The HR team had IT technical support in place to assist. A Governor asked if the four out of 20 people not receiving elements of mandatory training had been the same four and the Vice Principal and Deputy Chief Executive Officer stated that this was not the case.

iv) **Further Education - Benchmarking of Internal Audit Findings 2017/18**

The benchmarking report compared the College against the prior year and against other clients in 2017/18. Louise Tweedie confirmed that its basis was not scientific as there were different approaches across colleges and different audits each year. The landscape also changed with many recommendations across the sector in response to the new apprenticeship system challenges. The College had two green and two amber assurance levels in 2017/18 compared with five green assurance levels in 2016/17. It was positive that there were no **amber green red** or red assurances. There were two high priority recommendations in 2017/18 but the overall number was lower than in 2017/18 and lower than sector average. The Audit Opinion was that reached at 82% of Colleges with 10% having significant weaknesses, again largely in relation to apprenticeships and the many in year rule changes. .

v) The Audit Committee **NOTED** the Internal Audit Progress Report and Benchmarking report and **AGREED TO ADVISE** the Corporation that:

CC

- The Estates Management Framework provided Substantial Assurance (green) with one medium and two low priority recommendations
- The Human Resources Controls: Training and Development; Appraisals and Performance Management review provided Substantial Assurance (green) with one medium and two low priority recommendations

16.11 Whistleblowing, Fraud and Bribery Review

i) **Whistleblowing Procedure**

Members were aware that the Clerk to the Corporation had been contacted in February 2018 under the Whistleblowing Procedure and had met with the employee and a colleague for an initial meeting under section 5.1. The Clerk's advice following this meeting was that the matters raised should be addressed through the College Complaints Procedure with a further possible Whistleblowing appeal at its conclusion. The Complaints process had concluded without an appeal. There had been no other uses of the Whistleblowing Procedure in the previous academic year or in the year to date.

The Clerk to the Corporation had reviewed the Whistleblowing Procedure in the light of its use through review of other examples (from the Clerks' Network and from Universities through the Internal Auditors) and discussion with the Audit Committee Chair and Executive. It was agreed that it was most appropriate to take forward an amended version of the College procedure and a non Audit Committee Governor had kindly assisted with ironing out drafting issues. The papers included the revised version and a summary of changes with the tracked change original available in the Supporting papers folder.

ii) **Fraud Policy and Response Plan**

The Director of Finance had reported a potential fraud under the Fraud Policy to the Audit Committee on 20 November 2018. The Audit Committee received the fraud investigation report and noted the control improvements proposed to reduce future risks. A member of staff had been dismissed through the disciplinary system and police involvement

was ongoing. The Director of Finance and Vice Principal and Deputy Chief Executive Officer confirmed that there had been no other uses of the Fraud Policy in the previous academic year or in the year to date. No changes were proposed to the Policy although some changes had been made to the GPC Cardholder Procedures and training had been provided for managers and cardholders.

iii) Anti Bribery Policy and Procedure

The Director of Finance and Vice Principal and Deputy Chief Executive Officer confirmed that there had been no use of the Anti-Bribery Policy in the previous academic year or in the year to date. No changes were proposed to the Policy.

iv) The Audit Committee:

- **OVERSAW** the college's policies on fraud and irregularity and whistleblowing, ensuring the proper, proportionate and independent investigation of all allegations and instances of fraud and irregularity; noting that investigation outcomes were reported to the audit committee; that the external auditors (and internal auditors where appointed) had been informed, that appropriate follow-up action had been planned or actioned, and that there were no significant cases of fraud or suspected fraud or irregularity needing to be reported to the chief executive of the appropriate funding body
- **NOTED** that there had been an allegation or instance under the Fraud Policy during the 2018/19 year
- **NOTED** that there had been no allegations or instances under the Anti-Bribery Policy in the previous academic year or in the year to date
- **NOTED** that there had been an allegation under the Whistleblowing Procedure during the 2017/18 year which had been referred under the Complaints Procedure and had concluded
- **AGREED TO RECOMMEND** the revised Whistleblowing Procedure to the Corporation for approval on 19 March 2019

CC

16.12 The Insolvency Regulations

- i)** The Clerk to the Corporation reported that the new college insolvency regime came into effect on 31 January 2019. Normal commercial insolvency law now applied to colleges with implications for Governors ultimately including director disqualification. Governors have a duty to protect creditors but in the case of a creditor triggering an insolvency, the Department for Education (DfE) could appoint an education administrator (a qualified insolvency practitioner) with the duty to protect students as well as creditors.

Education and Skills Funding Agency "Exceptional Financial Support" would not be available after 31 March 2019. New policies and procedures were expected from the DfE and ESFA clarifying the intervention regime after 1 April 2019. The DfE regarded statutory insolvency as a backstop and would seek to work alongside the FE Commissioner (FEC) Intervention process and use non-statutory routes in the first instance.

- ii)** The papers included a summary of the process, as outlined by Eversheds Sutherland at the Midlands Governors' Conference on 5 February 2019 which covered:
- Monitoring and early implementation

- Application of existing insolvency procedures
 - Special Education Regime
 - Transfer Schemes
 - Governor Liabilities and Disqualification
- iii) Governors were advised by the DfE to work with college leaders to carefully and regularly monitor financial plans – paying particular attention to cashflow – to identify potential financial issues early on. This advice was supplemented by the November 2018 Governance Guidance which summarised relevant legal and regulatory requirements and recommended practice and by the January 2019 Insolvency Guidance which highlighted the importance of good financial management by governors of FE bodies, whilst providing further information on governors’ duties, obligations and liabilities under insolvency law as applied to FE bodies.
- iv) The Clerk to the Corporation concluded that whilst the new regime was a serious step for all colleges, particularly in the face of the current uncertainty, instability and low funding, it should not cause panic. (Charity Trustees were always subject to the insolvency legislation.) Governors should continue to act reasonably and to the best of their ability. Governors were aware that the College sought to report openly, to identify and mitigate risks, to provide a well controlled financial environment and to obtain professional support where appropriate including from internal and external auditors.
- v) The Audit Committee:
- **CONSIDERED** the implications of the new regime in the light of:
 - The Department for Education’s “Further education bodies: insolvency guidance”
 - The Department for Education’s “Regulation of further education colleges”
 - The Association of Colleges’ “The College insolvency regime – Q&As”
 - **AGREED to RECOMMEND** consideration at the Corporation meeting on 19 March 2019 with the detailed Annexes in the Supplementary Papers folder. **CC**

The auditors left the meeting at this point.

CONFIDENTIAL ITEMS

Items 16.13 – 16.15 are recorded as Confidential Minutes 1 of 1.

16.15 Any Other Urgent Business

- i) There was no other urgent business.

16.16 Date and Time of Next Meeting

- i) Tuesday ~~12 June 2018~~ 25 June 2019, 5.30pm, The Source, All Saints’ Building, Worcester

The meeting closed at 6.55pm.

Signed:

Date:

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Sue Frost
Clerk to the Corporation
6 March 2019

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