

**AUDIT COMMITTEE
MINUTES OF MEETING HELD ON WEDNESDAY 6 MARCH 2019, 1700 HRS,
IN ROOM A115**

Present:

Shirley Nellthorpe (Chair)
Verona Hall
Jem Musselwhite

In attendance:

Iona Bond	Southern Internal Audit Partnership
Dr Jan Edrich	Chief Executive and Principal
Tom Barlow	Finance Director
Matt Phelps	Vice-Principal Commercial
Dr Chris Davis	Clerk to the Board (minutes)

PART ONE OF THE MEETING

A.01.19 GOVERNORS' MEETING TIME WITHOUT SMT

No matters discussed.

A.02.19 COMMITTEE MATTERS

i Apologies

There were no apologies.

ii Declarations of interest

There were no declarations of interest, financial or otherwise declared.

iii Minutes of last meeting

The minutes of the meeting held on 7 November 2018 were agreed as a true and accurate record. All actions have been completed.

iv Matters arising

Re (A.16.18, iii) Mr Phelps reported that training had taken place on the use of epi-pens, but no new guidance had been produced to-date.

Re (A.18.18) Mr Barlow reported that the matters had all been reconciled in the Financial Statements Audit 2017/18 and no changes had been made.

Re (A.19.18, iii) This item would be discussed further, later in the agenda.

Re (A.19.18, vi) Mr Barlow confirmed that he had agreed an increase of just under £350 (less than 2%) to £18.105k. He said he was still in negotiation with Ms Bond over the daily rate.

There were no other matters arising.

A.03.19 GOVERNORS' MONTHLY REPORT, JANUARY 2019

i Financial aspects

Mr Barlow made Governors aware that there were some significant things to be aware of on the income side of the I&E account. The first thing was that there would be no AEB growth this year, £250k had been forecast in the budget so this has now been taken out of the forecast. The other headline is that the Non-Levy allocation has been reduced by £1.5m (£100k internal delivery, £1.4m partner delivery), which impacts on three lines in the management accounts. Off-setting this is the saving on partner costs and the overall net impact on the budget is £285k.

Mr Barlow said he had now included an exceptional items line to the I&E account, which identifies merger related costs. The forecast stands at an overall expenditure of £355k, which he felt would cover the merger costs.

Mr Barlow made Governors' aware of the cash position, which stood at a historically low £2.4m. The reason for this he said was that the College had recently made some advance payments to partners. As the processing team worked through the backlog of paperwork he was able to confirm that payments would reduce and this reduction was already being seen.

He clarified the situation by saying that the work had already been carried out by partners and the issue was with the backlog of work within the processing chain, which needed to be updated on to the system.

Mr Barlow said it was the intention and main focus of the SMT to return to look at costs during the rest of the year and to invalidate the negative deficit forecast.

Dr Edrich clarified the situation by saying that the College is carrying more agency staff because of the potential merger situation, which produces more exceptional cost. This will be addressed in the short term.

ii Matters arising

Dr Edrich explained that the January 2019 Governors' monthly report has only just been produced and Governors had not had time to digest the new data within the report, therefore she proposed to address any matters arising where appropriate at the Board meeting on the 20 March 2019.

Governors noted the financial aspects and there were no matters arising raised regarding the Governors' Monthly Report, January 2019.

A.04.19 AUDIT MATTERS

i Progress Report on Implementation of Recommendations of Previous Audit Reports.

Mr Barlow reminded Governors that as a result of the potential merger the Internal Audit visits had been postponed and therefore there were no recommendations or anything outstanding that had not been implemented from the progress report.

The only recommendation had come from the External Audit on the Audit Findings report 2018/19 regarding the reconciliation of the petty cash balance (total value £13.93). He reported that the College had agreed an acceptable reconciliation difference of £10, which if exceeded in the weekly reconciliation process will be brought to the attention of the Finance Manager for investigation and resolution.

Governors noted progress on implementation of recommendations made in previous audit reports.

ii Performance of the External Auditors

Mr Barlow made Governors aware that the Audit Committee is required under its terms of reference to monitor the performance of the College's internal and external auditors. The Committee have previously agreed a set of performance indicators (PIs), against which the internal and external auditors' performance is monitored.

He reported that all the PIs had been achieved across all areas.

Governors' reviewed the Performance of the External Auditors.

iii Update on Internal Audit plan post-merger

Ms Bond said that now a decision had been made about the potential merger, the original internal audit plans had been revisited on what was agreed for the remainder of the academic year. She made Governors' aware that the audit strategy and the annual audit plan had been approved by the Board at their May 2018 meeting.

She said that when it had been agreed to postpone the internal audit, it had been decided that the only audit that would take place would be the Sub-contracting controls assurance, because a certificate needed to be signed off.

Ms Bond has consulted with Mr Barlow to ensure that the systems and audit plan were relevant and carried out in a timely fashion.

Overall it has been agreed that the plan is still fit for purpose, but there are she said a couple of changes that she felt the audit plan needed to cover.

As part of the original audit it was an intention to look at IT General controls looking operationally at the IT strategy and the physical security of the IT system. There had she said been lots of changes to best practise and guidance on cyber security and it was her intention to replace the IT General controls audit with a 'Cyber Essentials' audit, which would look at the 'behind the screens' information, firewall protocols and user access to ensure security of the network.

This proposal was agreed by the Committee.

Mrs Hall asked if there were aspects missing from the Cyber Essentials audit, which would have been covered in the more general IT General controls audit.

Ms Bond said that yes there would be things missing because they are two separate based audits. However the Cyber Essentials audit would cover the high-end risks of an IT audit, which she felt was more important to the College.

The other audit area programmed in to the original audit plan was around staff utilization (mapping curriculum to staffing levels). She said that because of the timing it would be unnecessary to audit this area this time and therefore she proposed to include this area in the 2019/20 audit plan.

This proposal was agreed by the Committee.

Ms Bond then identified the only other change that she would like to make was around the audit of the Learner numbers system, which was due in July and she intended to do this earlier.

This proposal was agreed by the Committee.

Ms Bond agreed to rewrite the audit plan and send a draft to the Finance Director for approval.

Ms Bond said that because of the timing of these audits, the reports would not be available for the final meeting of the Audit Committee this academic year. If the Audit Committee needed to see the two reports that had been finalised before the final Board meeting in July, then she was happy to come and discuss these with the Audit Committee prior to that meeting. The third report would be formally reviewed by the Committee at their first meeting in the new academic year.

It was suggested that the initial two reports when finalised could be tabled and delivered electronically to Audit Committee members and any questions could be directed to Ms Bond for immediate response via email.

ACTION: IB/SN/CD

Ms Bond reiterated that she was in negotiation with the Finance Director over the fees for the next audit contract.

Mr Barlow made Governors aware that it was an intention that the Audit plan should cover Information management focusing on GDPR compliance in visit one.

Governors received an update on Internal Audit plan post-merger.

A.05.19 RISK MANAGEMENT

i Risk Management Board minutes, 11 February 2019

Dr Edrich reported that there had been three main areas of focus explored by the Risk Management Board, merger, changes to funding streams and a raised awareness of restraint training best practise and the need for training.

Governors' noted the Risk Management Board minutes, 11 February 2019.

ii Review Governors' Risks on the Risk Register

Dr Edrich referred Governors to three Risks identified in the Risk Register, which she said lead directly to the issue of potential mitigation against the liability identified within the new Insolvency Regime (January 2019):

- 7.1 Inability to recruit the necessary skill sets on Board
- 7.4 Ineffective Governor/SMT relations
- 7.8 Governors' understanding of financial complexities, implications and impact

Further discussion followed over areas within the three risks identified:

- Need for Financial training/understanding during induction
- A more holistic approach to the information reviewed at committee stage
- The danger of a 'silo' attitude and not being able to share in an all-inclusive fashion
- Cross fertilisation of information
- Receiving the right information at the right time and acting with responsibility
- CPD for Governors
- Training sessions with other Governors, sharing skills and knowledge
- KPIs to timely distil down the warning headlines

A proposal was made to schedule this agenda item into the March Board to allow the entire Board to review these risks and the risks around the new Insolvency Regime.

This proposal was agreed by the Committee.

ACTION: CD

Miss Nellthorpe said she had already put a draft together on the risk to be added to the Risk Register regarding the Insolvency regime, which she would bring to the March Board meeting. She would work on this further and share it with the Committee and the SMT before the Board meeting.

ACTION: SN

Miss Nellthorpe said there was a need for an overriding Risk 7.10, which would be imbedded within the other risks.

Mrs Hall asked if there was anything the Board could do to belay the fears of those Governors that had concerns about the new regime.

Dr Edrich felt that further discussion at the Board would help this by getting everybody's perspective and taking them through the necessary controls identified to mitigate against the potential threat of liability.

Governors' reviewed the risks related to Governance.

A.06.19 TO RECEIVE

i Sub-contracting controls assurance report

Ms Bond reported that this was a statutory requirement from ESFA, which required colleges to provide an annual assurance statement on the controls and processes in place regarding subcontracted provision. The audit reviewed the controls and processes in this area to support the assurance statement and gave an audit opinion of adequate assurance.

She did draw Governors attention to areas of where the framework of governance, risk management and control could be improved:

- There was an issue with the testing of 32 learner records, which identified that the College did not hold copies of the employer liability insurance on file for eight of its students.
- Learners are required to have regular progress reviews, with the College expecting partners to carry out reviews every ten to twelve weeks. Testing of 32 student records identified that these were not always taking place in a timely manner.

Ms Bond took Governors through the two observations and the management recommendation and auditor's assessment of management's response.

Dr Edrich said that there was a cost benefit ratio balance present and questions should be asked around the continued use of staff to address the increasing complexity of the sub-contracting area controls and continue to charge the same fee for management. She said the market would not sustain the increase in management fees and the College cannot continue to absorb the cost.

Mr Phelps proposed that before the summer, 2.5 days of the audit schedule should be set aside to address the learner records audit, in preparation for an RSM audit, because the new levels are so much higher to meet.

Ms Bond she would liaise with Mr Barlow and Mr Phelps about scoping the learner records audit and the audit tests required.

The Committee approved to the proposal to schedule-in 2.5 days to address the learner records audit, in preparation for an RSM audit.

ACTION: TB/MP/IB

Ms Bond said that she would like to propose the Audit schedule as follows:

- debtors and cash in audit visit two and follow up goes into visit three
- July visit would be the big learner numbers audit follow up
- Scope learner numbers in late May

Governors received the Sub-contracting controls assurance report.

ii Sub-contracting controls assurance report certificate

Governors received the Sub-contracting controls assurance certificate.

A.07.19 DATE OF NEXT MEETING

Wednesday 22 May 2019 commencing at 1700 hrs

Progress report on recommendations of previous audit reports

External Audit Plan –financial year 2018-19

Annual Internal Audit Plan 2019-20 and strategic Internal Audit Plan 2017-2020

Review of risk management (including annual review of effectiveness of systems of internal control 2018-19, Risk Register and Risk Reduction Plan)

Governors' Monthly Report – updates re Financial aspects and matters arising

Progress report on recommendations of previous audit reports

A.08.19 PART 2 OF THE MEETING (without SMT)

Dr Edrich, Mr Barlow and Mr Phelps left the meeting at this point. Governors were asked if they had any questions or wished to raise any points with the Internal Auditor.

Ms Bond was given the opportunity to raise concerns with Governors over the audit process.

She raised the issue of the new revised fees for the 2019/20 audit plan, with the daily rate going up from £385 to £400. She did not think there was any wriggle room with these fees.

The Finance Director would be informed of any decision within the next couple of days.

She said the basis of these fees was worked out on the fact that the College's contract is role on year-on-year; if the College signed up to a minimum of a three year renewal, with the potential for a further two years, there would be three year fixed fee, with an increase by CPI for the further two years.

There being no further business, the meeting closed at 1845 hrs.