

**Meeting of the Audit Committee
held on Thursday 3 December 2015 at 8.00am
In Room 814
at Matthew Boulton Campus**

Present:	Apologies:
Kathryn James (KJ)	
Andrew Madden (AM)	
Anthony McCourt (AmC)	
Taher Hussain (TH)	
In Attendance:	
Andrew Cleaves (AC)	
Louise Jones (LJ)	
Helen Ainsbury (HA)	
Richard Bacon (RB) PwC	
Ben Connor (BC) PwC	
Tony Felthouse (TF) KPMG	
Sitha Khanam (SK) KPMG	
Liam Nevin (LN)	

Apologies & Declarations of Interest

No apologies were received and there were no declarations in addition to those recorded on the register of interests.

Item 1 – Open and confidential Minutes of the meeting held on 29 June 2015

The minutes were approved as a true and accurate record of the meeting.

Matters Arising and Action Log

BC advised that the approved audit plan for 2015-16 would involve consideration of various aspects of the student journey and that it would be advisable to consider later in the year whether the review specifically of this subject area should feature in this year's or next year's plan.

In relation to student satisfaction the Principal advised that monthly surveys had now been introduced and in the new-year more immediate light touch surveys would be piloted. These would supplement the existing arrangements for surveying student opinion.

With regard to facilities and estate services LJ advised that the cost of security and utilities had been benchmarked in March. The contracts did not finish until next year but in-year reductions in cost had been secured and there was a further £1.3 million cost reduction saving identified for the re-tender.

The Principal advised that in respect of potential collaborative arrangements, the Area Review process was well advanced and this was examining structural options. Joint marketing and a shared apprenticeship company were both likely to emerge from the process.

LN advised that the Anti-Fraud Policy would be clarified so that it was clear that it was applicable to partners.

Item 2 – Risk Management Strategy

LJ introduced the item and explained that the strategy would be supported by workshops with Directors over the coming weeks. Team risk registers will then be developed and these will be incorporated into the monthly report to the Executive and subsequent reports to the Committee and Corporation. In response to challenge from the Chair and AM, it was acknowledged that there was work to do to embed this approach in the College but that over the next few weeks, tangible actions and progress would be evident.

Accordingly it was

RESOLVED

That the risk management strategy be recommended to the Corporation.

Item 3 – Internal Audit Annual Report 2014/15

RB introduced the report and explained that the overall “modified” opinion reflected a number of points. In relation to governance this included the need to embed the risk management process and business continuity, and some critical or high risk recommendations on internal controls that needed to be fully addressed.

AmC queried whether progress with implementing the student records recommendations was slower than expected and RB stated that there had been progress on this issue and it would take some time to fully implement all of the recommendations,

The Principal advised that his assessment was that the remedial work had not been carried out as quickly as necessary and that only since HA had joined, replacing the interim arrangements, had the extent of the challenge been fully understood.

The Chair observed that it was difficult to reconcile the conclusion with the narrative of the report and asked whether the modified opinion had arisen as a result of the student records review. RB stated that, in their opinion the other issues identified in the report were of sufficient substance that a modified opinion would have been given even without the student records findings.

The Principal asked whether the internal auditors had reflected on their own performance as the issues now identified were long standing but had not featured in audit opinions in previous years.

RB explained that internal audit was a function of management and that they agreed their programme of work with management based on a risk assessment. It was clear that the current Executive were co-operative and willing to identify areas of risk and that marked a departure from PwC’s previous experience.

The Principal noted that there was an irony in receiving a modified opinion in relation to matters that had originated in the past and which the Executive were already dealing with.

The Chair stated that it was incumbent on internal auditors to approach the Audit Committee directly if they did not receive the necessary co-operation from Management, and that this was integral to their fundamental duty to the Corporation.

AmC asked whether the process for meeting with the auditors independently of the Executive could be formalized. The Chair noted that this was part of the terms of reference

of the Committee and should be acted upon if it was to remain within those terms of reference.

Accordingly it was

RESOLVED

- **That the internal audit opinion for 2014/15 be noted.**

Item 4 – Data Assurance

HA introduced the report and advised that the observations represented her formative views as the recently appointed Chief Information Officer. In relation to the student records audit, most but not all of the recommendations had been implemented in respect of the introduction of procedures. However, at this stage they were not embedded.

Some of the more significant issues identified included the lack of contemporaneous recording of information, ownership of evidencing of activity necessary to support funding claims, IT resilience, and the skill mix and capability within some areas of the service.

The Chair questioned what the implications of these findings were for the remedial work and the timing of this and HA advised that she was currently assessing the scale of the work and the resource needed.

AmC questioned whether there was evidence of non-compliance with Data Protection (DPA) and Freedom of Information (FOI) requirements. HA advised that whilst FOI was not a problem area it was likely that the College was not fully compliant with the DPA.

The Chair observed that the issues pointed to change agent and programme management resources being needed and the Principal advised that the Executive had already prioritised a review of the deployment of resources and which would be undertaken over the next few weeks.

The Principal acknowledged that whilst significant progress had been made in addressing the quality, finance and governance issues in the College, similar steps now needed to be taken in relation to data quality. This was further evidenced by the recent ILR audit undertaken on behalf of the SFA and which had resulted in a part-qualified opinion. At this stage it was not known what steps the SFA would take in relation to the matter, but the Executive were satisfied that the issues raised by the auditors concerned data quality and availability of supporting evidence for some cases in the sample, and not impropriety.

TF advised that the SFA would produce a financial reconciliation over the course of the next week for all colleges and this would inform the final accounts.

Accordingly it was

RESOLVED

- **That the report be noted**

Item 5 – Audit Committee Annual Report

The Chair introduced this item and explained that the report format was familiar to the Committee from previous years. Thereafter LN explained that there was slightly more detail in this report than in previous years and this reflected the significant events of the last year.

On reflection, to give a complete account LN suggested that some commentary on the status of the implementation of internal audit recommendations would also be useful.

Accordingly it was

RESOLVED

- **That the Audit Committee Annual Report be recommended to the Corporation subject to the inclusion of a summary of the status of recommendations made by the Internal Auditors during 2014-15.**

Item 6 – Internal Audit Recommendations – Management Actions

The Chair introduced this item and noted that all of the actions with the exception of the student records recommendations had been implemented and since the Committee had discussed this item already no further consideration was necessary at this point.

Accordingly it was

RESOLVED

- **That the report be noted**

Item 7 – Draft Management Letter and Letter of Representation

TF summarized the findings of KPMG and by reference to the Management Letter confirmed that the audit was substantially complete with the sign off of the final post balance sheet events expected early in the following week. Thereafter the key risks as set out on page 5 of the report were summarized, and the recommendations arising from the audit, as set out on page 9 of the document.

TF referred to the reported forecast outturn as detailed on page 14 and noted that the pace of deterioration in-year was significant but the scale of the financial problems had been identified by the Executive early in the year and the outturn figure had remained close to the forecast identified in March 2015.

The Chair asked how the findings set out in the annual internal audit report had influenced the judgements of the financial statements audit. TF advised that the data issues identified were relevant to tuition fees and generally the income identified in the accounts. In relation to the former they were satisfied that the fees were materially correct. In relation to the latter point KPMG had not audited the underlying data.

The Chair advised the committee that whilst the letter of representation was in a standard format she had discussed with LN the steps required of Governors to discharge their obligations in this respect and how this needed to be evidenced at the Corporation. It was also noted that the self- assessment regularity questionnaire was an important feature of this process.

Thereafter LJ advised that there were two adjustments expected in relation to the financial statements and the Finance Committee would receive the statements for consideration on the 4 December

Accordingly it was

RESOLVED

- **That the Management Letter and Letter of Representation be referred to the Corporation for approval.**

Item 8 - Internal Audit Reports

(i) Business Continuity Plan

BC introduced this report and drew the attention of the Committee to the Executive Summary. In particular this identified the need to prioritise critical activities, bring greater clarity to the role of the serious incident team, and develop governance arrangements around the business continuity programme.

In response to a question from the Chair, LJ advised that plan testing around mock incidents was planned for the Spring.

The Principal advised that since the publication of this report the College had improved its approach and had recently successfully managed a major incident. The focus for the Executive would now be on improving business continuity.

The Chair questioned whether there was an alternative venue plan if required in response to a critical incident. The Principal confirmed that this was the case for each of the major colleges.

(ii) Information Security

RB explained that the review was conducted at a high level and had identified a medium risk in relation to both hardware capacity and protocols around mobile device management and data storage. The latter review raised a number of difficult issues that the College would need some time to resolve.

The Chair asked to what extent the College's suite of policies would need re-writing. HA said that the picture was a mixed one; some policies were largely fit for purpose, others such as record archiving would need more significant review.

AmC questioned the availability of resources to undertake this work and HA explained that a proposed extension of contract with Capita would realise some resource to support this activity. However, further work was needed to identify non-recurrent expenditure necessary to support the improvements needed generally within this work area.

(iii) Progress on Delivering the Internal Audit Plan 2015-16

BC advised that the plan was proceeding in line with expectations.

Accordingly it was

RESOLVED:

- **That the internal audit reports be noted**

Item 9 – Financial Regulations

The Chair introduced the item and explained that the Financial Regulations had been considered by the Corporation and were presented to the Audit Committee to identify any specific concerns. The Committee accepted that the document was robust and thorough and requested that the Executive ensure that any refresh was presented to the Audit Committee in advance of the Corporation.

Accordingly it was

RESOLVED:

- **That the Financial Regulations be endorsed**

Item 10 – Insurance Annual Report

The Chair introduced this item and explained that the Committee particularly wanted to understand the reasoning behind the decision to limit terrorism insurance cover to Matthew Boulton College.

LJ summarised the report and advised that the cost of insurance had increased by approximately £7k since the previous year. There were two substantive changes in provision to report; firstly, legal expenses cover had been discontinued as the College did not make use of the provision, and secondly terrorism cover had been introduced for Matthew Boulton College. Before reaching this latter decision, a sector survey had been undertaken and which established that such cover was rarely procured. Secondly, consideration had been given to the value for money of College wide cover. This would have cost approximately £80k as opposed to approximately £15k for cover for Matthew Boulton College, which due to its location was considered to be the most appropriate location to insure. In summary, the outcome of the value for money judgment was that cover for Matthew Boulton College was appropriate as opposed to a college wide policy.

The Chair advised that the Executive, should, in light of this decision, consider whether appropriate anti-terrorism training should be provided to relevant staff.

LJ thereafter drew the attention of the committee to a further issue which was that a number of assets had not historically been listed on the insurance policy and therefore were not covered by the policy. Action was being taken to address this by the 18 December. The problem had arisen because items of equipment had been procured directly by Curriculum teams and these had not been notified to the Director of Estates.

The Chair sought assurance that the issue did not involve inspection of regulated equipment and plant for the purpose of its regulatory duties and LJ confirmed that this was not the case.

Accordingly it was

RESOLVED:

- **That the insurance cover held by the College be noted**

Item 11 – Committee Annual Work Plan

LN introduced the report and explained that the work plan reflected the key activities of the Committee and that a review of Information Governance had been added to the plan.

Accordingly it was

RESOLVED:

- **That the Committee approve the annual work plan**

Item 12 – Review of Audit Committee Terms of Reference

LN advised that the terms of reference had been fully reviewed in 2014 and no substantive changes were proposed. It was noted that paragraph 5.1 of the terms of reference required a meeting at least once a year with the auditors and without management present. It was agreed that this would be scheduled for the June 2016 meeting.

The Chair noted that key communications from the SFA should be referred to the Committee and reminded the Executive of the importance of such information being considered by the Committee prior to the Corporation.

Accordingly it was

RESOLVED:

- **That the Committee endorse the existing terms of reference**

Item 13 – Internal and External Audit Strategy

Representatives of internal and external audit left the room at this point.

LJ advised that given the length of tenure of the existing auditors it was appropriate to re-tender the service for the next academic year. LJ would be issuing a scoping document in the next couple of weeks and this would be sent to the key firms with FE experience. Thereafter a shortlist would be compiled with a view to conducting interviews in February 2016 and a recommendation being made to the Audit Committee in March 2016.

The Chair questioned whether consideration had been given to establishing an internal team and LJ confirmed that this had been discounted as it was not a priority and was uncommon in the sector.

AM questioned how the timetable would fit with the emerging recommendations of the Area Review. The Principal advised that the implementation timescale for any recommendations was not clear and it would be in the interests of the College not to delay the appointment of the auditors.

At the request of LJ, both the Chair and AM confirmed that they were willing to take part in the interview process.

Accordingly it was

RESOLVED

- **That the College retenders the services of both internal and external audit with a view to recommendations being presented to the Audit Committee meeting in March 2016**

Any Other Business

This is recorded in a confidential minute

Date of next meeting: Thursday 3 March 2016

Signed.....
Andrew Moad
Chair

Date.....
3 March 2016